Herbert Smith, Eugene Sit and Dennis Larkin, left to right, are among managers expecting better fixed-income opportunities.

Fixed income seen as more attractive

By Fred Williams

A growing number of equity and balanced managers are dusting off their fixed-income investment capabilities to capitalize on the increasing interest by pension fund executives in fixed income.

The firm mentioned most frequently by consultants and other managers as the most successful fixed-income start-up from scratch is Neuberger & Berman Pension Management, New York. That firm formed its fixed-income group offering active management of limited maturity fixed-income securities in March 1984.

Neuberger & Berman has attracted $1.1 billion to its fixed-income portfolios during that time.

More commonly, equity managers that have reached a certain size of equity assets under management are adding fixed income. Others may have had some success with fixed-income investments in balanced portfolios and now are starting to market that record.

Ann Wohler, a consultant with Callan Associates Inc., San Francisco, said several balanced managers without any previously fixed-only strategy "all of a sudden have found themselves with a good per-

Continued on page 60

In effort to boost liquidity

LTV may defer contribution

By Fred Williams

DALLAS — The LTV Corp. is planning to seek Internal Revenue Service authorization to defer a $180 million pension contribution to help improve overall corporate liquidity.

The financially troubled company will seek a waiver on payments to several pension plans connected with its steel business for plan year 1984.

The contribution deferral is one component of an overall restructuring of its loss-plagued steel operations that will include a divestiture and joint venture program designed to generate up to $500 million in cash during the next 18 months.

LTV has reported nearly $484 million in net losses since it acquired Republic Steel Corp. last summer and nearly $700 million in the past three years.

George Simon, director of benefit accounting and administration at LTV, said the affected plans were "the principal plans" of LTV Steel Corp., with assets of about $2 billion, the lion's share of the company's total pension assets of $2.9 billion.

The deferred amount "will be amortized with interest over a 15-year time period, like a mortgage payment, with level payments each year for up to 15 years," he said.

He said LTV will undertake the deferral with the level payment process in mind, but should LTV's financial picture improve, the company would have the option of completing the full payment.

The payments will be in addition to each year's pension contribution as they come due, he said.

"At this point in time, we are looking at obtaining a waiver, and we really haven't gotten beyond that point. Assuming everything remains equal, we will have a $180 million payment again next year, plus one year's amortization of this year's deferral," he said.

LTV made a non-cash contribution of its own debentures and preferred stock to its pension plans for three consecutive years. The last LTV non-cash contribution of its securities was last year, when it put $33 million principal amount of 14% sinking fund debentures into the Jones & Laughlin Steel Inc. pension fund. Jones and Laughlin was consolidated with Republic in December 1984 into LTV Steel Corp.

Mr. Simon said non-cash contributions were made in the past in conjunction with public offerings of LTV securities. A non-cash contribution was not an option because the company has had no public financing this year.

"Some companies have done special issues, we have not selected that route," he said. "One way of doing things is to develop an issue and put it into the plan as opposed to making it a part of a public offering as we have.

"Those contributions have worked well for us because we have sold them back out again. It's a very effective way to get cash back into the plan."

Mr. Simon declined to reveal the specific funding status of the steel plans but noted figures from disclosure documents showing the steel plans with vested benefits totaling about $2.6 billion, non-vested benefits of $173 million and assets total-

Continued on page 60

Stocks reflect plan funding

CAMBRIDGE, Mass. — Corporate managers and shareholders will benefit if they fund pension plans as fully as possible, a new study suggests.

The study confirms, by using a different technique, earlier research showing the stock market recognizes unfunded liabilities in its pricing of company stock. It was conducted by Jeremy Bulow, a professor at the Stanford University Graduate School of Business; Randall Morck, a researcher at the National Bureau of Economic Research, Cambridge; and Lawrence Summers, a professor of economics at Harvard University.

According to the study, which was published by the National Bureau of Economic Research, "the stock market valuation of firms reasonably accurately reflects their pension funding situations."

The authors added, "Our results provide no support for the notion that investors ignore pension liabilities in valuing firms."

They noted the conclusion was reached using alternative methodologies and data from several different years "and so is reasonably robust."

In one test, the authors examined the impact of unexpected changes in nominal long-term interest rates on otherwise similar companies with different pension liabilities.

The firm with the greater pension liabilities should do better in the market than the firm with the smaller liabilities because of the greater capital gain it experiences as the higher interest rate unexpectedly erodes the value of long-term obligations.

The authors used data for the 36-month period between January 1979 and December 1981, examining 200 firms in 1979, 470 firms in 1980 and 400 firms in 1981.

The results confirmed the hypothesis that the market impact of interest rate changes would be greater for companies with large unfunded liabilities than for those with smaller unfunded liabilities.

The results showed a firm with unfunded liabilities equal to 10% of equity value would experience a 0.3% rise in market value for a 1% increase in the interest rate.

The authors said the results also suggest that for weak companies with large relative unfunded liabilities, the availability of the possibility of terminating the plan and "putting" the unfunded liability to the Pension Benefit Guaranty Corp. also influences the market valuation of pension liabilities. ■

Questionnaires can be ordered

The questionnaires for *Pensions & Investment Age*'s annual International Investment Managers Directory, to be published in late June, have been mailed. If your firm has not yet received one and wishes to be included in this ranking of international and global investment management firms, please contact Donna Boscarino in New York at (212) 649-0298.

Highlights

CASH MANAGEMENT

Managers doubt Hutton case will stop abuse ..51
Liquid reserves of Top 100 industrials drop 51
Short-term investment chart 51

CORPORATE FINANCE

Yen-based bonds draw 2 U.S. firms 15
Merrill leads '84 capital rankings 15
New issues chart 15

MASTER TRUST

Shakeout seen blurring difference 19
Soft-dollar use not widespread 19
Some banks taking world view 20
Directory 22

PIPER

Eclectic managers unusually successful 37
International managers lag market 37
International fund listings 37
Special equity fund listings 38

REAL ESTATE

Executives find TREET confining 43
Aldrich sees trouble ahead 43
Wrap-up 43

GENERAL NEWS

Jury still out on trade costs 4
Grinell College a winner in sale 6
Little interest seen in indexed bonds 8

DEPARTMENTS

Current accounts 58
Datebook 56
Dan Dorfman 56
International update 42
Letters 10
Market beat 35
Money movers 58
Opinion 10
People 34
Washington notebook 40

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Late news

Continued from page 1

senting seven union locals, will pay $985,000 back to the plan under a consent order filed in a lawsuit in which the Labor Department claimed the plan has made below-market mortgage loans. Former trustee John Gonzales was enjoined from undertaking fiduciary responsibilities for five years.

Chicago Title sold

CHICAGO — Lincoln National Corp., Fort Wayne, Ind., has agreed to sell Chicago Title & Trust Co. to Alleghany Corp., New York. Terms of the sale are being negotiated, but Lincoln National will receive $60 million in cash and a six-year, $68 million note bearing a market rate of interest, officials said.

An Alleghany spokesman said no change is expected in investment management at Chicago Title & Trust.

State expands fund

LINCOLN, Neb. — The governor has signed into law a bill requiring all but two counties — which have their own retirement plans — to join the $121 million Nebraska State Retirement System by Jan. 1, 1987.

Fraenkel is chairman

NEW YORK — Francis Fraenkel, a Shearson Lehman Brothers Inc. senior executive vice president, has been named chairman and chief executive officer for Lehman Management Co., replacing Henry Breck. Mr. Breck will remain in a yet-to-be determined capacity. Also, senior portfolio managers C. Charles Hetzel and Colman Brandt have been named vice chairman and president, respectively.

Fed issues standards

NEW YORK — The Federal Reserve Bank of New York issued voluntary standards of capital adequacy for dealers in U.S. government securities not supervised by federal authorities.

The measures include some modifications to the proposed guidelines published by the Federal Reserve Bank last February.

The guidelines recommend a dealer's liquid capital should always exceed its measured risk by 20% and establish formulas to estimate possible risk in an adverse market.

White settles claim

CLEVELAND — A bankruptcy court here approved payment of $15.2 million by White Motor Corp. to the Pension Benefit Guaranty Corp. to settle the agency's pension claims against the company. The payment is the largest single cash settlement in the PBGC's history.

Late money movers

• SACRAMENTO — The California State Teachers Retirement System has taken a 95% share in a joint venture valued at more than $140 million that has acquired a 29-building portfolio of Silicon Valley research and development properties. The deal was almost all cash.

• DETROIT — The Skillman Foundation has hired Lazard Freres Asset Management, New York, to run a $30 million equity portfolio. The Lazard account will serve as a core equity portfolio, according to Leonard Smith, president of the foundation.

• RICHMOND, Va. — The A.H. Robins Inc. pension fund, with more than $60 million in assets, made its first investment in equity real estate by putting $9 million into Prudential Asset Management Inc.'s large open-end fund PRISA. Senior Vice President G.E.R. Stiles said the contribution came from a redeployment of assets out of equities and new contributions.

• CHICAGO — Heitman Advisory Corp. has brought a closed-end group trust it manages for pension accounts and an unnamed pension fund it advises directly into a joint venture with JMB Realty Corp. to buy 50% of Water Tower Place, the prestigious mixed-use property on Chicago's Near North side.

Mafco, the real estate subsidiary of Marshall Field & Co. that sold the 50% stake, had been offering its share for $70 million when it was on the block this spring. The deal closed in March.

• PITTSBURGH — Allegheny International Inc. reportedly has hired Lehman Management Inc., New York, for special equity management. The amount of the allocation could not be determined.

Jury still out on trade-cost factors

By Joel Chernoff

The quality of execution on trades varies greatly by broker, but it is unclear if cost variances hinge on whether the broker is a top Wall Street firm or a regional or discount broker, recent studies show.

The studies do not necessarily conflict with an SEI Corp. study that found leading houses enjoy an average 3.4 cents-per-share advantage over smaller houses (*Pensions & Investment Age*, April 15). However, they suggest the issue is not settled.

"The jury is still out on that one," said Stephen Berkowitz, co-author of a recent study prepared for the Department of Labor.

The studies are part of a heated controversy on whether institutional investors are receiving "best execution" on their trades directed to second-tier brokers. Some of the brokers then pay for research or other services provided to pension funds or their money managers, or rebate some of the commission dollars to the pension fund. The brokers' payments for the services are known as "soft-dollar" payments.

The issue has caused traditional full-service brokerage houses to draw battle lines against the smaller brokers in the war for the institutional commission dollar.

Moreover, the Securities and Exchange Commission and the Labor Department have entered the fray over whether certain types of soft-dollar payments are legal.

According to preliminary results by a Labor Department-commissioned study, brokerage costs, when adjusted for market impact, are significant and should not be ignored by plan sponsors.

Assuming a 50% portfolio turnover rate, transaction costs could reduce portfolio performance by 30 basis points, the study estimated.

The study was based on data on 45,233 purchases worth nearly $8 billion and 28,303 sales worth almost $7 billion that were monitored by State Street Bank and Trust Co. of Boston. The bank monitored 175 funds with $15 billion in assets.

The study found costs varied significantly based on the broker involved, said Mr. Berkowitz of Berkowitz, Logue & Associates, a Columbia, Md., consulting firm. The results are part of a larger project on pension fund investment performance commissioned by the Labor Department.

However, the authors have not yet obtained satisfactory results on whether the type of broker has an impact on the cost of trading.

The data are skewed because many transaction slips indicate the broker that performed the clearing, but not the execution, Mr. Berkowitz explained. Regional brokers, for example, sometimes use a major Wall Street firm to clear their trades.

The preliminary results also show that transaction costs for sales of securities are more expensive than purchases.

For Standard & Poor's 500 trades, the mean commissions for both purchases and sales were virtually identical at 8.3 cents per share. But the mean execution cost was 3.6 cents per share for purchases, while hitting 8 cents per share for sales.

A separate study conducted for Capital Institutional Services, a Dallas firm that offers third-party services or discount commissions for its clients, found the firm provides equally good execution as full-line firms.

The CIS study was performed by Rollyn Hoffman, president of R.J. Financial Associates of Boston.

Unlike the SEI and Labor Department studies, the CIS work did not try to assess the market impact of a trade — that is, evaluate the effect that trades had on subsequent transactions.

Instead, it compared CIS-executed trades made on the same day with the same stocks to those made by 20 other brokers.

The trades were made on the behalf of five pension funds during the 13-month period between Jan. 1, 1984, and Jan. 31, 1985.

During that period, 148 of more than 2,000 trades were made on the same day in the same issue. The trades mostly involved large companies.

Based on that data, the study found that CIS had a better price on 61 trades, a worse price on 63 and the same price on 24.

Without equalizing the price, the other brokers enjoyed a half-cent per trade advantage over CIS on a trade-weighted basis. When both CIS and the other brokers were on the same side of the trade, the brokers' cost advantage grew to nearly 1.8 cents per trade.

Equalizing the price, by calculating the results based on $100,000 invested in each trade, supported those results. The other brokers maintained a 0.6 cents per share advantage for all trades, and a 0.3 cents per share edge when CIS and the other broker were on the same side.

The SEI study, which was commissioned by Donaldson, Lufkin & Jenrette and Goldman, Sachs & Co., used a method that compared the transaction price of a stock to subsequent trades and adjusted for the stock's liquidity and the size of the transaction.

While there is nothing wrong with this methodology, the SEI study gave comparisons of Group I and Group II brokers without saying how great a difference in performance was shown by the individual brokers, noted Jerome Valentine, a financial consultant who evaluated the CIS study.

Thus, there is substantial overlap in performance between the two groups, he found.

According to his calculations, 28.8% of the Group II brokers beat the Group I average.

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Corrections

- **Prudential Asset Management** inadvertently was omitted from the listing of the 25 largest GIC managers in the May 6 issue. Prudential Asset reported GICs at $4.5 billion, which makes the firm the sixth largest GIC manager in the directory.
- The tax-exempt assets of **Manning & Napier Advisors** of Rochester, N.Y., were listed incorrectly in the May 6 manager ranking. As reported in the firm's profile, the tax-exempt assets totaled $1.1 billion.
- **ASB Capital Management** is mainly a balanced manager. Its focus was reported incorrectly May 6.
- The asset mix for **Northern Trust Co.**'s commingled accounts in the May 6 issue should have read 50% stocks, 40% bonds and 10% cash.
- The number of tax-exempt clients for **J.P. Morgan Investment Management Inc.** in the May 6 directory should have read 451.
- **Fiduciary Management Associates**, while profiled in the May 6 issue, was omitted from the ranking of managers by tax-exempt assets. The firm, with $275 million in tax-exempt assets, ranked 397th.
- In the **PIPER** fixed-income report May 13 the performance figures for the latest quarter and 12-month period were not annualized. The performance figures were annualized only for the 3-, 5- and 10-year periods.

Corporate Finance

Merrill leads '84 capital rankings

By Marci Baker

NEW YORK — Merrill Lynch & Co. continued to lead all other investment houses in capital position in 1984, while Van Kampen Merritt Inc., the runner-up among regional firms, reported the largest percentage gain in capital from the previous year.

According to figures compiled by the Securities Industry Association for its upcoming 1985-86 Yearbook, Merrill's capital increased 9.4%, to $2.2 billion, between Jan. 1, 1984, and Jan. 1, 1985.

Naperville, Ill.-based Van Kampen's capital position, however, skyrocketed 236% during the same period, to $170.6 million from $50.8 million, as a result of its purchase by Xerox Corp. That increase also resulted in the firm's rise to 20th

Continued on page 16

Goodyear, American Express sub

Yen-based bonds again draw U.S. firms

By Marci Baker

Two major U.S. companies have opted to turn to yen-based financing instruments, breaking several months of inactivity in that arena.

The Goodyear Tire & Rubber Co., Akron, Ohio, one of the first U.S. issuers of Euroyen bonds last December, completed its second 10-year bond offering earlier this month that, at 25 billion yen, or about $100 million, was double the size of its first issue.

In addition, American Express Co., New York, announced its subsidiary, American Express Overseas Finance Co., has filed with the Japanese Ministry of Finance to issue 10 billion yen, or approximately $40 million, in Samurai bonds as part of efforts to build relationships and raise visibility in the Japanese marketplace. Its offering will be the first issuance of yen bonds in Japan by a foreign financial services company and the sixth offering overall by a U.S. corporation.

Samurai bonds are unsecured yen-denominated financial obligations issued in Japan by foreign corporations, sovereign governments and international development agencies.

The Goodyear offering followed a three-month absence of Euroyen offerings by U.S. issuers.

About 15 companies had stepped up to offer almost $1.5 billion in these securities after the Ministry of Finance allowed highly rated U.S. issuers to enter the Euroyen market Dec. 1. Activity stalled two months later when the availability of bargain-basement swaps on the transactions dried up, the market became saturated and many issues began trading outside of commissions. (*Pensions & Investment Age*, Feb. 18).

Investment bankers initially thought the latest Goodyear deal, which was lead-managed by Daiwa Europe Ltd., offered more of the same. The 7⅛% bonds were offered at par and almost immediately traded outside of commission (i.e. the price of the bonds dropped).

Since then, however, the issue has come back, reflecting the improved value of the yen, according to bankers. "The deal looks better than it did a couple of weeks ago," said one.

It looks very good to Goodyear. The bonds offered an interest rate slightly higher than the 6¾% offered on the company's first Euroyen deal. However, Goodyear converted this new issue into dollars in a swap transaction priced off of 10-year Treasuries, a company official said. At the time of issuance, the Treasury rate was about 11.4% and the official said Goodyear got something less than 12% on its swap.

"When you borrow at a rate that is close to what the U.S. government does, it's hard to pass up," a Goodyear spokesman said.

Goodyear's Euroyen offering is part of a $200 million to $300 million long-term financing program to reduce its short-term debt portfolio. Its credit arm, Goodyear Financial Corp., is running a $380 million to $480 million commerical paper position.

"We don't like to have too big of a commercial paper position," the official said. "When it gets close to $400 million, we like to replace that with long-term, fixed-rate debt."

Although the attractive hedging and pricing opportunity were key motivations in Goodyear's decision to turn to Euroyen bonds a second time, the company had another reason for seeking to raise capital overseas.

The Securities and Exchange Commission is questioning some foreign payments made by employees on behalf of Goodyear.

"There was some reluctance to attempt an offering in the public markets here (during the investigation)," the official said.

Goodyear is planning to raise capital domestically in the next couple of weeks to wrap up its financing program, but it will do so through two private placements of

Continued on page 16

New issues of corporate securities

April 29 — May 10, 1985

Issue date	Company	Amount ($ mil.)	Type of security	Offering price Debt (%) Share ($)	Gross spread as % offer price	Where traded (to list)	Managers
Debt							
5/8	Staley Continental	350.00	Cvt. Note	25.00%	3.500	NY	Merrill Lynch Capital Markets
5/6	Textron	150.00	Sub. Note	99.41%	.704	NY	Morgan Stanley/Kidder Peabody/Salomon Brothers
5/3	Coast Savings & Loan Assoc.	150.00	Capital Note	96.26%	3.117	OTC	Drexel Burnham/Goldman, Sachs
5/8	Denmark	105.30	Flt. Note	100.00%	.500	LUX	Salomon Brothers
5/6	Textron	100.00	Sub. Deb.	99.80%	.877	NY	Morgan Stanley/Kidder Peabody/Salomon Brothers
5/2	Rio Grande Industries	100.00	Sr. Sub. Note	100.00%	2.000	OTC	Morgan Stanley
4/30	American Southwest Financial	93.71	GN-FH CMO	99.47%	.653	OTC	First Boston/Goldman, Sachs/Morgan Stanley
5/2	Rio Grande Industries	80.00	Sub. Deb.	100.00%	2.250	OTC	Morgan Stanley
5/10	First Fidelity Bancorp	50.00	Extendable Note	99.75%	.702	OTC	Goldman, Sachs/Ryan, Beck & Co.
5/7	Equitable Life Leasing*	50.00	Medium Note	100.00%	.078	OTC	Merrill Lynch Capital Markets
Common Stock							
5/6	USF&G	157.80		$32.87	3.56	NY	Goldman, Sachs
4/29	Echlin	113.10		$25.12	4.18	NY	Goldman, Sachs/Shearson Lehman Brothers
4/30	Federal National Mortgage	111.10		$15.87	3.34	NY/MW/PC	Dillon Read/First Boston/Goldman/Merrill/Salomon/Nomura
5/9	Highland Superstores	103.60		$18.50	5.50	IPO	Goldman, Sachs/E.F. Hutton
5/2	Intergraph	87.60		$54.75	2.59	OTC	Salomon Brothers/Robinson-Humphrey Co.
5/9	Bethlehem Steel	82.50		$16.50	3.00	NY	Salomon Brothers
5/2	Polaroid	69.00		$27.00	3.70	NY/PC	Shearson Lehman Brothers
5/9	Applied Data Research	32.30		$32.25	4.87	NY	Dean Witter Reynolds
5/8	American Health	25.60		$10.25	6.83	IPO	First Boston Corp.
5/2	Greenman Bros.	24.00		$24.00	5.00	AM	Smith Barney, Harris Upham & Co.
Preferred							
5/8	Glenfed Finance II	75.00	Cvt. Preferred	$500,000.00	1.75	OTC	Shearson Lehman/Goldman/Merrill/Salomon
5/3	Federal Paper Board	75.00	Preferred	$25.00	3.60	NY	PaineWebber/First Boston
IPO							
4/29	Rada Electronic Industries	5.00		$2.50	10.00	IPO	Rooney Pace Inc.
5/1	Realty South Investors	22.00		$20.00	8.00	IPO (AM)	Prudential-Bache Securities
5/2	Oshkosh B'Gosh	19.70		$25.00	6.80	IPO	William Blair & Co.
5/3	Digital Transervice	6.00		$2.00	10.00	IPO	S.D. Cohn & Co.
5/8	Americare Health	25.60		$10.25	6.83	IPO	First Boston
5/8	Sbarro	11.90		$10.37	7.23	IPO	Prudential-Bache Securities
5/9	Centrust Savings Bank	15.00		$7.50	7.00	IPO	Drexel/Salomon/Bear Stearns/Pru-Bache/Intl. Bank of Paris
5/9	Highland Superstores	103.60		$18.50	5.50	IPO	Goldman, Sachs/E.F. Hutton
5/10	Nichols Institute	8.30		$6.00	7.50	IPO	L.F. Rothschild, Unterberg, Towbin

Source: Securities Data Corp., New York
**Competitive*

Flt.: Floating Rate
Cvt. Convertible
GN-FH CMO: Ginnie Mae/Freddie Mac collateralized mortgage obligation
Sub.: Subordinated

AM: American Stock Exchange
IPO: Initial Public Offering
LUX: Luxembourg
NY: New York Stock Exchange
OTC: Over the Counter
MW: Midwest
PC: Pacific

Capital positions of investment banking firms*
($ thousands)

Rank	Firm	Jan. 1, 1985	Jan. 1, 1984
1.	Merrill Lynch & Co. Inc.	$ 2,214,574	$ 2,023,731
2.	Shearson Lehman Brothers Inc.	1,896,000	1,056,555
3.	Salomon Brothers Inc.	1,576,800	1.268,693
4.	Dean Witter Reynolds Inc.	1,237,046	964,656
5.	The E.F. Hutton Group Inc.	1,019,886	746,480
6.	Goldman, Sachs & Co.	859,000	712,000
7.	First Boston Inc.	658,921	424,447
8.	Prudential-Bache Securities Inc.	617,852	493,427
9.	PaineWebber Group Inc.	564,455	449,606
10.	Drexel Burnham Lambert Group Inc.	561,183	407,359
11.	Bear, Stearns & Co.	500,000	420,000
12.	Morgan Stanley & Co. Inc.	355,256	274,447
13.	Stephens Inc.	320,103	275,598
14.	Donaldson, Lufkin & Jenrette Inc.	310,863	337,866
15.	Kidder, Peabody & Co. Inc.	307,416	227,801
16.	Thomson McKinnon Inc.	243,481	214,079
17.	Smith Barney Inc.	207,000	203,000
18.	Spear, Leeds & Kellogg	205,000	203,000
19.	A.G. Edwards & Sons Inc.	176,082	174,257
20.	Van Kampen Merritt Inc.	170,597	50,751

Source: Securities Industry Association
*Capital is defined as the sum of shareholders' equity and subordinated debt

Merrill has capital lead . . .

Continued from page 15
place in the overall rankings from 38th, one of only two regional firms to place among the top 20.

(The SIA defines regional firms as those based outside New York and not national full-line firms.)

The SIA has compiled data on 356 investment houses across the country, of which 208 are regionals. The aggregate capital position, defined as the sum of shareholders' equity plus subordinated debt, of these firms grew 24.5% during the year to $18.5 billion from $14.8 billion.

The bulk of that capital represents that of the top 20 firms, however. Their combined capital increased 28.1% during the year, to $14 billion from $10.9 billion.

Other big percentage gains among the top 20 were won by Shearson Lehman Brothers Inc., which jumped 79.5%; First Boston Corp., 56.9%; Drexel Burnham Lambert Group Inc., 37.8%; and The E.F. Hutton Group Inc., 36.6%.

Shearson's capital gain to $1.9 billion unseated Salomon Brothers, which held that spot at the start of last year. Salomon, which dropped to third, reported capital of $1.6 billion.

Dean Witter Reynolds Inc. and E.F. Hutton maintained their fourth and fifth place spots from the previous year with $1.2 billion and $1 billion in capital, respectively.

Other shifts in position among the top 20 firms included First Boston, whose $658.9 million in capital moved it from ninth to seventh place. As a result, Prudential-Bache Securities Inc. and PaineWebber Group Inc. fell one notch each to eighth and ninth, respectively.

Meanwhile, Drexel's rise in capital position to $561 million moved it to 10th, edging out Bear, Stearns & Co.

In the regional rankings, Stephens Inc., Little Rock, Ark., took top honors, according to the SIA. Its capital increased to $320.1 million from $275.6 million during the year. The firm placed 13th in the overall ranking.

Van Kampen climbed to second place from eighth as a result of its 236.2% capital increase, while Kemper Financial Services Inc., which was not included in the rankings last year, placed third. Kemper had capital of $115.8 million at the start of the year.

Janney Montgomery Scott Inc., Philadelphia, slipped to fourth from third, with capital of $71.9 million. That figure was down 2.2% from the $73.5 million capital position it had at the outset of 1984.

Prescott, Ball & Turben Inc., Cleveland, maintained its fifth place position with a 10.9% climb in capital to $70.1 million.

The capital position of all regional firms combined increased to $2.6 billion from $2.2 billion, a 17.6% gain, according to SIA. About half of those assets represent the capital of the top 20 regional firms, whose combined capital increased to $1.4 billion from $1.1 billion for a 25.9% rise.

Significant changes in position in the top 20 firms came from the Jeffries Group Inc., Los Angeles; Alex. Brown & Sons Inc., Baltimore; and Bateman Eichler, Hill Richards Inc., Los Angeles.

After reporting the capital of its holding company for the first time, the Jeffries Group moved to seventh place from 16th. Its capital position increased 61.8%, to $63.5 million from $39.2 million.

Alex. Brown, on the other hand, fell to ninth from second after reporting the capital of its broker/dealer operation rather than the holding company. Its capital slipped almost 25% during the year to $56.2 million from $74.9 million.

Likewise, Bateman Eichler's reported a 25% drop in capital to $55.1 million from $73.4 million, which dropped the firm to 10th place in the rankings from fourth.

Two newcomers among the top 20 regional firms were Legg Mason, Inc., Baltimore, and Edward D. Jones & Co., St. Louis.

Legg Mason moved to 16th from 21st during the year, with a $6.3 million rise in capital to $37.1 million. Jones & Co.'s capital jumped to $35.1 million from $21.2 million, moving the firm to 19th from 34th.

San Francisco's Hambrecht & Quist Inc., which placed 14th previously, dropped to 22nd, with about a $6.5 million drop in capital to $33.5 million. ■

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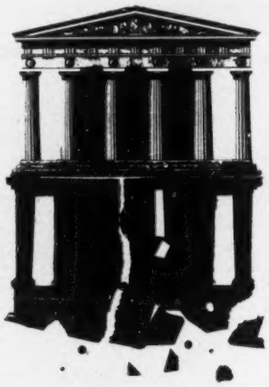

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Yen-based . . .

Continued from page 15
$50 million each.

To date, most U.S. corporations have preferred to do yen-based financings in the European markets because of the short lead time involved in issuing those Euroyen bonds. Plus, cash flows from those types of securities typically can be swapped into other denominations with greater ease.

However, American Express opted to issue yen-based bonds directly in Japan in order to attract retail investors there. American Express is looking to expand its credit card, travelers checks and travel service business in that market.

In addition, the company's investment banking firm, Shearson Lehman Brothers Inc., is looking to increase its services in Japan.

"We're making a major commitment to expand our businesses in Japan," said Gregory Fitz-Gerald, executive vice president and treasurer of American Express.

Mr. Fitz-Gerald said the offering will be an attempt to broaden awareness of the financial services concern and strengthen business relationships.

The 10-year bond offering has been in preparation since late last year when deregulation by the Ministry of Finance enabled the company to qualify for a Samurai bond issue. Until then, eligibility standards regarding balance sheet ratios, interest coverage and other financial data had precluded U.S. financial entities from that market, according to Mr. Fitz-Gerald.

The company hopes to issue its securities sometime in June. Although pricing of the issue will be determined at that time, the treasurer said current interest rates in Japan for 10-year bonds is about 7%.

Lead underwriter Nikko Securities Co. will put together a syndicate of 40 to 50 Japanese securities firms for the offering. In addition, American Express officials will tour several major cities, including Tokyo and Osaka, as part of overall marketing efforts. ■

Corporate notes

Unique Intel offering

SANTA CLARA, Calif. — In a new financing twist and a rare debt offering for the company, Intel Corp. raised $92.1 million by selling zero-coupon bonds with equity warrants.

By adding the warrants, Intel believes it shaved more than 3 percentage points off the interest rate.

In addition, Intel will have "quite substantial" tax savings because the offering was issued by a financing unit, Intel Overseas Corp., rather than the parent.

It was the second public debt offering by Intel this year, but the first to raise money for operations; the other offering was a financial arbitrage to take advantage of low Euroyen rates.

In the latest deal, underwritten by L.F. Rothschild Unterberg Towbin, Intel sold 250,000 units, each consisting of a 10-year $1,000 face value zero-coupon bond and 25 warrants.

Each unit sold for $435.50. Broken down, the bonds sold at $319.75, to yield 11.75%; the warrants were valued at $4.63 each, or $115.75 for all 25 warrants.

With the warrants, the yield on each unit is 8.5%.

Arvind Sodhani, Intel's assistant treasurer, said the warrants reduced the effective yield on each unit to 8.5%, more than 3 percentage points less than the 11.75% bond yield.

The deal, whose face value is $215 million, raised a gross $93.6 million and netted Intel about $92.1 million after underwriting expenses of 1.6%, or $1.5 million.

The sale comes about a month after Waste Management Inc. raised more than $200 million by selling the first zero-coupon convertible bonds in a deal underwritten by Merrill Lynch Capital Markets Inc.

The Intel warrants, which are detachable from the bonds and trade on the NASDAQ market, have a 10-year maturity and two-year call protection. Each warrant allows investors to buy a share of Intel common stock for $40 a share. Intel stock closed at $28.25 May 10, the day the offering sold. After two years, Intel can call the warrants, if the price of its common stock rises to 145% of the exercise price, or $58 a share.

Intel rarely issues debt, "Precisely because of the cyclical nature of the semiconductor business," Mr. Sodhani said.

"You can't rely on debt as a means of financing, because the debt will come back to haunt you." With the zero-coupon bonds, Intel pays none of the accruing interest until 1995.

The offering will raise Intel's long-term debt by $93 million to $250 million. With the warrants, Intel's total capitalization will rise another $24 million to $1.4 billion.

It is owned 20% by International Business Machines Corp.

By issuing it through the financing subsidiary, Mr. Sodhani said Intel could, in effect, reduce its overall tax burden.

He called the savings "quite substantial," although he was unable to provide the actual amount.

By putting the interest expense in the overseas unit, he said Intel minimizes the loss of foreign-source income.

Otherwise, he said, interest expense generated by the parent generally has to be allocated against foreign-source income. That leaves unused some foreign tax credits, he added because the U.S. generally has a lower tax rate.

Rule 415 study

NEW YORK — Much as predicted, the advent of shelf registration is leading to a greater concentration of underwriting commitment among the largest investment banking houses.

According to a recent study conducted by Salomon Brothers, the percentage of underwriting commitment by the top 11 firms has nearly doubled in both the debt and equity areas since Rule 415 first was introduced on an experimental

Continued on page 17

Shakeout seen blurring differences

By Fred Williams

The shakeout under way in the master trust/custodial service industry and the resultant concentration in the hands of fewer and fewer service providers will blur the distinction between master trust banks and make choosing a master trustee more dependent on intangible criteria, according to experts.

Bank trust officers and consultants agree the number of banks offering master trust/custodial services will continue to shrink, eventually resulting in a two-tier system of very large national service providers and a number of regional providers.

The rest will find it too expensive and competitive and will drop out of the race to concentrate on other areas of banking services, according to industry sources.

Only those banks willing to commit the millions of dollars needed to maintain state-of-the-art master trust services and that have the full support of upper management are expected to survive and thrive in the coming years.

The withdrawal of Chemical Bank, New York, in 1982 and the more recent ones of First National Bank of Chicago and Wells Fargo Bank, San Francisco, are only the start of what most see as a shrinking base of master trust banks.

"You will see more of them fall out and the large master trust banks will pick up that fallout," said David Pittman, senior vice president and director of trust services marketing at RepublicBank Dallas, the largest master trust bank in the South and one that has moved steadily up the ladder, ranking 13th in combined master trust and master custodial assets.

Mr. Pittman agrees that in only a few years there will be but 10 to 15 major master trust banks.

"The key players have been identified, those that have risen to the top have the staying power. The reason they have been successful is because the banks have committed the people and the financial resources necessary for them to compete," said Noel B. Feldman, a partner in the Newport Beach, Calif., office of Hewitt Associates.

"I would not be surprised to see others drop out very soon," he said.

"There are a number of high-quality master trust providers, but the list you see today will certainly be different in 10 years," said Michael Terry, vice president of Northern Trust Co., Chicago.

"It takes a major commitment to stay in this business. It takes substantial investment in equipment and resources as well as experienced people interfacing with the client. It is not a simple system to administer. It is a very costly service to provide," Mr. Terry said.

"Every institution evaluates its strategic plan and evaluates the areas it is involved with. Some areas become too costly to stay competitive with others and they may decide not to offer them any longer. We have pulled out of some non-profitable areas, too, and try to concentrate on some of the profitable areas like trust. To others, though, (trust services) may be less important.

"This is a normal kind of shakeout as people evaluate the types of service they can offer and after evaluating the profitability of the types of services they can offer," he said.

Northern Trust has $63 billion in master trust and master custodial assets under administration, and most agree it will be one of the survivors. But as with the other major master trust providers, success will be measured in how much these banks are willing to invest to stay on top.

"We have invested millions in our master trust service and other institutions may not want to invest as heavily. They may want to emphasize another area like investment manager services," Mr. Terry said.

"Three-fourths of our clients are not entering into master trust relationships for the first time. That is indicative of the dynamics of the master trust business. As clients review their existing master trust arrangements, they may start to look elsewhere."

Robert Edgar, manager-government and institutional management and trust at Nor-

Continued on page 30

Others expected to leave field

Banks prepared to fill void

By Trudy Ring

Banks appear to be rushing to provide master trust services to clients of institutions that are discontinuing these services.

At the same time, however, an officer of one of the banks quitting the master trust business said he expects others to follow, leaving just a few giants in the field.

Wells Fargo Bank, San Francisco, is the latest to announce it is closing out its master trust and custodial business. First National Bank of Chicago announced last fall that it was ending its domestic directed trust business, although its branch in Guernsey, England, will continue to provide global custody services as a subagent for regional banks that do not have this capacity. Chemical Bank, New York, discontinued master trust services in 1982.

Wells Fargo is leaving the master trust business to focus its resources on other employee benefit plan products, including the passive funds offered by its subsidiary, Wells Fargo Investment Advisors, said Vern Kozlen, senior vice president and senior trust officer.

Continued on page 32

Soft-dollar use for fees not widespread

By Joel Chernoff

Corporate pension fund use of soft dollars to defray master trustee fees might never emerge as a major factor in paying these bills, pension experts say.

"There has been a lot of talk but very little action," said Harry Jones, a partner of Lynch, Jones & Ryan, a New York-based broker that accepts pension-directed business.

"We've discussed it with several (clients) but they've backed away at the last minute," remarked Jack Sheehy, senior vice president at Bank of America.

Officials at other banks said interest by corporate pension fund sponsors in the use of soft dollars for master trust fees is waning.

"We haven't had a lot of requests lately," said Mike Herlihy, vice president at State Street Bank & Trust Co., Boston.

Overall, however, efforts by pension funds to direct a portion of their brokerage trades to specific firms to receive a rebate in cash or services have reached new peaks recently.

According to Greenwich Research Associates of Greenwich, Conn., 35% of 1,076 corporate funds surveyed direct brokerage to obtain some $200 million in soft-dollar payments.

Larger funds were more likely to have asked their managers to direct a portion of their trades to specific brokers: more than half of corporate sponsors with $350 million in assets did so, while two-thirds of funds with assets exceeding $1 billion used the practice.

However, few funds have chosen to direct the rebated or "soft" dollars to offset their master trustee fees, instead preferring to use the rebates to help pay for various consulting services, such as performance measurement or asset allocation services.

Greenwich Research found that, of all funds that did receive soft-dollar-paid services, far and away the greatest use was for payment of various consulting fees: 73% of the funds used them to pay for performance measurement, while 31% directed payment for manager selection and 41% for monitoring managers.

Only 7% of those funds directing trades used the soft dollars to reduce their master trustee costs.

Of those who did, however, the largest funds made the greatest use, with 29% of Fortune 100 firms using soft dollars to offset their fees, while 15% of the second 100 and none of the fifth tier used soft dollars to pay for master trust services.

"We're not seeing that many plan sponsors" direct soft dollars to master trustees,

Continued on page 33

Some banks taking a world view

By Rose Darby

NEW YORK — Although the prospects of coordinating and reporting on securities transactions for the global marketplace might daunt most banks, some are fighting to dominate the international master trust area.

According to industry experts interviewed by *Pensions & Investment Age*, the banks aggressively eyeing master trust turf on an international scale are Chase Manhattan Bank, New York, the leader in international master trust balances; State Street Bank & Trust Co., Boston; Mellon Bank, Pittsburgh; Northern Trust Co., Chicago; and Bankers Trust Co., New York.

In fact, those banks that pulled out of domestic master trust in the past few years might have based the decision to do so, in part, on the prospect of adding global capability, said Frederick P. Horne, vice president in charge of master trust administration for Mellon Bank.

Those banks that pulled out of the area are Chemical Bank, New York, which did so in 1982; First National Bank of Chicago, which decided to pull out of domestic directed trust last fall, although its branch in Guernsey, England, will continue to provide global custody services as a subagent for regional banks that do not have this capacity; and most recently, Wells Fargo Bank, San Francisco.

The reason Mellon stayed with the far more complex area of global custody and master trust capability, he said, is that "we're very good at the business. It's profitable and it fits squarely with the bank's corporate strategy of offering technology-driven data processing products for direct fees."

Mellon has about $250 million in global custody for U.S. pension funds, he said.

"More and more pension funds are seriously adding global to their investment mix," despite the high cost of global custody services, Mr. Horne said.

International and global master trust services can cost up to twice as much as domestic services, according to industry participants.

The reason for the higher cost is "you are cloning a set of costs, in that you're dealing with 10 to 15 international markets around the world," Mr. Horne explained.

"You must have representatives in those countries processing data, incurring their costs as well."

Further, "you're working with 10 to 15 account conventions and you then have to go through the process of bending those conventions to produce ERISA-quality reporting," he added.

Finally, he noted, "communications costs are a real factor too."

Communication, which always is important, become critical on a global basis, said Robert W. Hayes, vice president at Bankers Trust.

"It takes a sophisticated institution to provide a service such as this," he explained. "Because you could easily be in 30 to 40 markets for this whole business, it creates unique problems.

"Plan sponsors now need reports in multicurrency terms. They would need all of those shadowed in U.S. dollars, and it's a highly sophisticated reporting practice that can do that."

Bankers Trust serves as master trustee or global custodian for roughly $1 billion of U.S. pension fund assets.

An all-inclusive list of basic services that a global master trustee offers would begin with the safe keeping of securities, according to Jennifer Cameron, vice president for Northern Trust Co.

"This is definitely more complex than on the U.S. side, because securities need to be kept in the country in which they are traded," she said.

"So, the custodian bank needs a network of institutions in as many as 20 countries to handle physical settlement as well as safekeeping."

In settling trades for customers, conventions vary widely from country to country, she noted.

"In many countries, physical delivery and registration of securities is required as compared to the environment in the U.S.," Ms. Cameron said.

Further, the master trustee must account for collection and payment of income for customers from all overseas sources, she said.

"Also, we follow corporate actions that affect the capital structure changes and advise money managers as to how clients are thinking," she said. This is for such actions as stock splits, proxy votes and rights issues.

Cash management on a daily basis is another service frequently offered by a global custodian, she said.

Further, Northern Trust "can handle foreign exchange at the direction of the investment manager. We handle withholding taxes in each country, or we file the necessary claims to reclaim the amount due for the client," Ms. Cameron said.

Finally, all global master trustees must handle accounting and reporting on the clients investments on a daily and a monthly basis, she added.

Northern Trust handles roughly $1.3 billion in global custody for pension funds in the United States, she said.

One way pension funds might be avoiding the higher cost of global custody services is to participate in a commingled fund, said Jennifer Dunning, vice president at State Street Bank & Trust Co.

"The trend we're seeing today is that more and more clients are going toward pooled funds because it's more expensive to have an actively managed portfolio," Ms. Dunning said.

"Even those plans that put up to $20 million in international are looking at pooled vehicles."

State Street acts as master trustee for roughly $2.2 billion in pension funds, she added.

The movement toward commingled funds, however, is not actually taking money out of the hands of the master trustees, said Allen Martin, vice president and manager of employee benefit relationship management at Bankers Trust.

"Commingled funds offer an economical, relatively simple to administer way for plan sponsors to participate in international and as they do that and grow, they're going to want separate accounts," he explained.

"In the long run, because commingled funds make international investment attractive, they, in effect, encourage the need for actively managed international portfolios and along with them, they foster growth in the master trust area." ■

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Master trusts

Pensions & Investment Age's master trust directory covering the year ended March 31 was developed from a telephone survey of the leading master trust banks in the United States and Canada.

Crocker National Bank, San Francisco, and Royal Trust Co., Toronto, did not supply updated data and were omitted.

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a

AmeriTrust Co.

900 Euclid Ave., Cleveland, Ohio 44101; (216) 687-5000

Master trust assets $2,840,000,000
Master custodial assets $1,740,000,000

AmeriTrust has 42 master trust clients and 14 master custodial clients. There are 10 account supervisors.

The size of the smallest master trust client is $3 million; the largest is $406 million.

The actual settlement date is used for accounting, but trade date accounting is available.

Master trust services include asset custody; settlement of security trades; reporting on asset values and transactions; plan allocation; automated cash management; securities lending; performance measurement; portfolio analysis; index fund; cash forecasting and customized reporting; legal administrative guidance; master consolidation reports; benefit disbursing; participant record keeping; global custody; ERISA reporting; options and futures processing; special purpose pooled funds.

Asset and transaction reports are delivered to clients three to five days after month's end and accounting reports 15 days after month's end. Reports may be received either on hard copy or on-line.

Fees are based on market value of assets, the number of plans, the number of managers and other special accounting or asset services.

The client contact is Gary Queen, senior vice president, at (216) 687-4089.

Pensions & Investment Age will feature a directory of international investment managers on June 24.

b

Bank of America

555 California St., 17th Floor, San Francisco, Calif. 94104; (415) 622-9568

Master trust assets $12,100,000,000

Bank of America has 41 master trust clients. There are seven account supervisors. Master trust assets are up $1.3 billion from last year.

The size of the smallest master trust client is $6 million; the largest is $3.8 billion.

Trade date and settlement date accounting are available at the client's option.

Master trust services include custody, plan and trust accounting; automatic cash management; income collection and redemptions and ERISA reporting. Options include global custody; fail float analysis; customized reporting; performance measurement; benefit disbursing with government reporting; securities lending and participant record keeping.

Reports are delivered to clients five to 10 days after the end of the period on hard copy.

Fees are based on a percentage of assets, services provided and structure.

The client contact is John P. Sheehy, senior vice president.

Bank of New York

48 Wall St., New York, N.Y. 10015; (212) 530-1784

Master trust assets $14,700,000,000
Master custodial assets $9,600,000,000

Bank of New York has 56 master trust clients and 10 master custodial clients. There are seven account supervisors; accounts are serviced by a specialized administrative team. Master trust assets increased $2.2 billion for the year ended March 31.

Accounting procedures include trade date, settlement date and tax lot.

The size of the smallest master trust client is $5 million; the largest is more than $7 million.

Master trust services include full administrative services; accounting reports; cash management; ERISA reporting; portfolio review; fail float protection; options and futures accounting; and on-line inquiry. Ancillary services include securities lending; benefit disbursement; performance measurement; consulting services; beneficial interest reporting; daily unit valuations; and on-line inquiry with two-way communication.

Reports to clients are delivered within five days; on-line reports are available daily. Fees are based on a percentage of market value.

The client contact is Thomas A. Price, vice president, (212) 530-8710.

Bankers Trust Co.

280 Park Ave., New York, N.Y. 10017; (212) 850-2082

Master trust assets $60,000,000,000
Master custodial assets $9,500,000,000

Bankers Trust has 99 master trust clients and 16 master custodial clients. Master trust assets increased $2.6 billion from last year. There are 22 relationship managers and 26 product delivery specialists.

The size of the smallest master trust client is $10 million; the largest is $8.5 billion.

The primary accounting method is trade date, on a fully accrued basis. However, settlement date, tax lot and other methods are available.

Master trust services include portfolio restructuring services; account establishment services; legal administrative guidance; adviser services; cash management and forecasting; fail float analysis and credit, options and futures processing; security income posted on payable date; and a variety of trust/plan accounting reports that meet ERISA and FASB requirements.

Specialty services are securities lending; on-line capabilities; pension disbursing w/EFT; global custody; master consolidation reporting; performance measurement and ad hoc consulting services; a variety of commingled investment trust funds; and microfiche and computer tape reporting.

The monthly transaction reports are sent within two days after the reporting period. Assets and liabilities reports and customized reports are available six to eight days after the end of the period.

The fee structure for the core master trustee service is reflective of the trust structure. This includes an accounting and reporting fee based on the type and number of investment portfolios, a per-transaction fee for security movement and an administrative fee applied as a basis-point calculation on actively managed assets.

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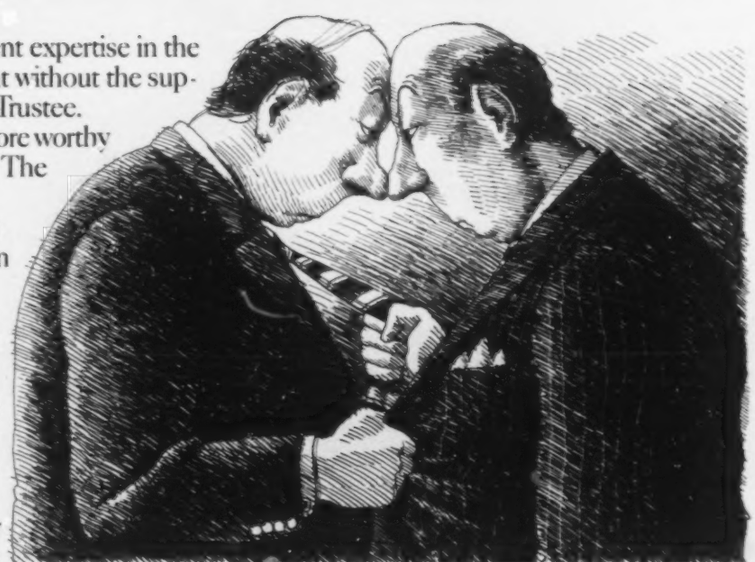

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The client contact is Lynne Stewart Minard, vice president and head of pension relationship management, sales and marketing.

Boston Safe Deposit & Trust

1 Boston Place, Boston, Mass. 02106; (617) 722-7310

Master trust assets $21,000,000,000
Master custodial assets $5,747,000,000

Boston Safe has 31 master trust clients and 13 master custodial clients. There are 15 account supervisors. Master trust assets are up $5.2 billion for the year ended March 31.

The size of the smallest master trust client is $8 million; the largest is $3.2 billion.

Master trust services include full accrual; trade date based accounting and analytical reporting tailored to meet individual client needs.

Boston Safe offers on-line access to accounting information, performance measurement, analytical software and data bases, by means of terminals connected to Boston Safe's computers by permanent lines on a dial-up basis or by data downloaded nightly to clients' microcomputer workstations.

Also offered are securities lending; global custody; benefit payments; comprehensive services for defined contribution plans; consulting services.

Investment vehicles for short-term cash reserves are available. STIF is available for use by accounts qualified under ERISA. As an alternative to STIF, the Reserve Deposit Account is a money market deposit account available to both ERISA and non-ERISA funds.

Reports are delivered to clients five business days after the end of the period.

Fees are calculated on an individual basis, depending on the services required.

The client contact is John R. Snow, vice president, at (617) 722-6970.

C

Canada Permanent Trust Co.

320 Bay St., Toronto, Ontario M5H 2P6; (416) 361-8248

Master trust assets $2,800,000,000
Master custodial assets $1,000,000,000

Canada Permanent Trust has 210 corporate custodial clients. There is a national administrative manager, three account managers and three senior account officers. Master trust assets increased $1.3 billion in the year ended March 31 and master custodial assets, $460 million.

The size of the smallest master trust client is $700,000; the largest is $576 million.

Settlement date accounting is employed. Trade date accounting is stored in the system and may be used to identify pending trade information.

Master trust services include safekeeping; income collection and securities settlement (including DTC via Manufacturers Hanover).

The Canada Permanent Trust Co. also offers pension payroll; client-based, on-line terminals; securities lending; various monthly and on-demand reports; SPAC services, a new institutional custody system; a client call program; and a client focus group.

Reports are delivered to clients 10 to 15 days after the end of the period.

The basic fee is based on the book value of assets. The firm adds on a multiple manager fee, unitization fee, mortgage administration charge and a security transaction fee.

The client contact is R.W. LaForce, vice president-pension trust.

The Canada Trust Co.

275 Dundas St., London, Ontario N6A 4S1; (519) 663-1613

Master trust assets $3,700,000,000
Master custodial assets $4,830,000,000

The Canada Trust Co. has 72 master trust clients. There are 16 account supervisors. Master trust assets increased $830 million from last year.

The size of the smallest master trust client is $1.8 million; the largest is $150 million.

Settlement date accounting is used.

Master trust services include safekeeping of securities; processing transactions; constituent and consolidated account reporting; monitoring of compliance with legislative constraints; automatic income crediting; and STIF capability. Automated U.S. reporting and cash management reports may be viewed at client terminals.

Reports are delivered to clients 10 to 15 days after the end of the period either on hard copy or through electronic access.

Fees are based on a percentage of book value, plus a variable cost per check, termination and security transaction.

The client contact is Patricia Williams, pension information officer-pension trust services.

Centerre Trust Co. of St. Louis

510 Locust St., St. Louis, Mo. 63101; (314) 231-9300

Master trust assets $1,090,000,000
Master custodial assets $760,000,000

Centerre Trust has seven master trust clients and three master custodial clients. There are two account supervisors.

The size of the smallest master trust client is $35 million; the largest is $567 million.

Trade date accounting and settlement date accounting are used.

Master trust services include cash sweep; multiple unit accounting; TUCS; securities lending; performance measurement; and portfolio analytics.

Reports are delivered seven to 10 business days after month's end on hard copy.

Fees are based on asset value, number of plans and number of managers.

The client contact is Richard W. Hibbs at (314) 436-9265.

Chase Manhattan Bank

1211 Avenue of the Americas, 33rd Floor, New York, N.Y. 10036; (212) 730-3008

Master trust assets $54,000,000,000
Master custodial assets $47,000,000,000

Chase Manhattan has 78 master trust clients and 17 master custodial clients. There are 34 account supervisors.

The size of the smallest master trust client is $1 million and the largest, $13 billion. The largest master custodial client is $22 billion.

Master trust services include safekeeping; custody accounting; cash management; performance measurement; portfolio analysis; index funds; futures and options accounting; ERISA and FASB reporting; and benefit disbursement. Also offered are 401(k) and saving and thrift plans.

In addition, a full array of global custody services, including safekeeping, multicurrency reporting and accounting and global performance measurement is offered. Global custody assets exceed $18 billion.

Chase also offers investment information products and analytical services including Executive Summary, a microcomputer-based system.

Fully audited reports are delivered to clients within seven days after the end of period. On-line reporting is available on next-day basis for both accounting and performance measurement information. Fee calculations are based on the asset value of the account as well as the structure and transaction volume.

The client contact is John A. Sweeney, vice president.

Citibank

1 Citicorp Center, 153 E. 53rd St., New York, N.Y. 10043; (212) 559-1523

Master trust assets $16,160,000,000
Master custodial assets $29,161,000,000

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- Client Seminars
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- Real Estate Management
- Venture Capital Management
- PAYSOP Administration
- Legal Administration

In some cases, it has meant applying existing services that we have proven and refined over the years. In others, we have used the full range of our operational technology and financial expertise to create new services that have become standard for the industry.

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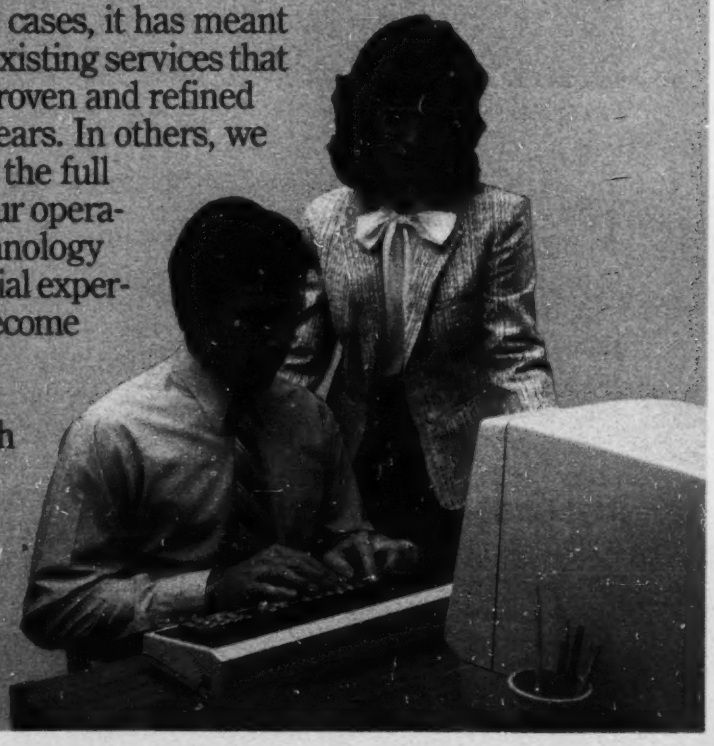

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Citibank has 112 master trust clients and 75 master custodial clients. There are 24 account supervisors. Master trust assets are up $4.5 billion for the year ended March 31.

The size of the smallest master trust client is $1 million; the largest is $16 billion.

Settlement date accounting and trade date accounting are both used.

Master trust services include safekeeping and custody; cash management; ERISA reports; equitable share accounting; performance measurement and analysis; TUCS comparisons; on-line information systems; global custody; securities lending; participant record keeping and benefit disbursement.

Reports are available five to seven days following receipt of all information. Next-day delivery is provided for on-line reports.

Fees are based on individual services.

The client contact is Michael L. Costa.

The Citizens and Southern National Bank

33 North Ave. N.E., 10th Floor, P.O. Box 4114, Atlanta, Ga. 30302; (404) 897-3038

Master trust assets $550,000,000
Master custodial assets $4,000,000,000

The Citizens and Southern National Bank has 19 master trust clients and 90 master custodial clients. Master trust assets increased $100 million during the year ended March 31. There are seven account supervisors.

The size of the smallest master trust client is $25 million; the largest is $200 million.

Trade date and settlement date accounting are used.

Master trust services include performance measurement/risk analysis; participant record keeping; portfolio review; securities lending; assistance in ERISA reporting; benefit payment; TUCS; and five pooled investment funds.

Reports are delivered to clients five days after the end of the period on hard copy, microfiche or magnetic tape. On-line access is offered.

Fees are based on market value of assets or are negotiated.

The client contacts are Richard Schweitzer and Edgar R. Smith.

Continental Illinois National Bank & Trust Co.

231 S. LaSalle St., Chicago, Ill. 60697; (312) 828-2345

Master trust assets $11,400,000,000
Master custodial assets $1,800,000,000

Continental Illinois National Bank & Trust Co. has 36 master trust clients and seven master custodial clients. There are 11 account officers and five account relationship managers. Master trust assets increased $3 billion in the year ended March 31 and master custodial assets, $200 million.

The size of the smallest master trust client is $6 million; the largest is $1.55 billion.

Trade date and settlement date accounting are available.

Master trust services include consolidated accounting (plan and managers); performance measurement; dial-up access via Continental's remote information system; account relationship-manager; automated cash management; full global custodian network with multicurrency reporting capabilities; full fail float protection; electronic mail system; legal administrative guidance; benefit disbursing; participant record keeping; securities lending; ERISA reporting; customized reporting; option and futures processing and cash projections. An officer and administrative assistants are assigned to an account on a full-time basis.

Reports to clients are delivered five to 10 days after the end of the period.

Fees are primarily asset based.

The client contact is Edward J. Doyle, vice president, at (312) 828-7062.

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First Pennsylvania Bank

15th and Chestnut Streets, Philadelphia, Pa. 19101; (215) 786-8765

Master trust assets $1,400,000,000
Master custodial assets $17,100,000,000

First Pennsylvania Bank has 14 master trust clients and nine master custodial clients. There are 12 account supervisors. Master trust assets increased $400 million in the year ended March 31 and master custodial assets, $1.6 billion.

The size of the smallest master trust client is $2.5 million; the largest is $600 million.

Settlement date accounting is used; trade date reporting is available.

Master trust services include trusteeship/custodianship; accrual or

cash accounting; portfolio analytics; performance measurement; TUCS; passive investment; securities lending; global custody; public fund accounting (NCGA rules); and client terminal with inquiry and/or input capability.

Cash statements are delivered within five to seven business days and full accountings within 15 to 17 business days after the end of the period.

Asset-based fees are available, all others are unbundled.

The client contact is James F. McHale, senior vice president, (215) 786-7946.

First Trust Co. of St. Paul

332 Minnesota St., St. Paul, Minn. 55101; (612) 291-5072

Master trust assets $2,200,000,000
Master custodial assets $500,000,000

First Trust Co. of St. Paul has 11 master trust clients and five master custodial clients. There are seven account supervisors. Master trust assets increased $200 million in the year ended March 31 and master custodial assets, $150 million.

The size of the smallest master trust client is $14 million; the largest is $1.4 billion.

Trade date accounting is used, but settlement date accounting is available.

Master trust services include securities settlement; custody and servicing; full accrual accounting; automated cash management; index fund; portfolio review; performance measurement; TUCS; customer on-line; securities lending; ERISA reporting; participant record keeping; and benefit disbursing.

Cash statements are delivered to clients in one working day. Assets with market values are delivered in three, and complete accounting with accruals are delivered 10 days after the end of the period.

There is a separate asset fee and transaction fee.

The client contact is Robert J. Kay, employee benefits marketing officer, (612) 291-4924.

First Wisconsin Trust Co.

777 E. Wisconsin Ave., P.O. Box 2054, Milwaukee, Wis. 53201; (414) 765-5000

Master trust assets $1,500,000,000
Master custodial assets $846,000,000

First Wisconsin Trust Co. has 30 master trust clients. There are nine account supervisors. Master trust assets are up $217 million for the year ended March 31.

The size of the smallest master trust client is $3 million; the largest is $283 million.

Trade date accounting is used.

Master trust services include relative and comparative performance measurement; portfolio monitoring services; securities lending; bond dedication and bond immunization.

A report of financial transactions on a settlement basis and including income totals is available about the second business day of the month; a list of assets indicating both cost and market value is available on the sixth business day of the month. The complete monthly financial report for each investment manager account on a full-accrual basis and trade-date basis is available on the 12th business day of the month. Reports are available either on-line or on hard copy.

The complete annual financial report for each investment manager account is available 20 business days after the end of the fiscal year. Annual fees are based on the market value of equities and cost value of fixed-income securities plus transaction costs.

The client contact is Anthony M. Rood, first vice president.

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Guaranty Trust Co. of Canada

366 Bay St., Toronto, Ontario M5H 2W5; (416) 863-5168

Master trust assets $1,120,000,000

Guaranty Trust has 21 master trust clients. There are six account supervisors.

The size of the smallest master trust client is $700,000; the largest is $201.6 million.

Settlement date is used for accounting. There is a capability for trade date reporting.

Master trust services include income accruals; unitized accounting and consolidated reporting; cash management; portfolio analysis; performance measurement; report customization; legal administrative guidance; benefit disbursing; participant record keeping; securities lending; investment manager consulting; and options and futures processing.

Hard-copy reports are available for clients after 10 working days.

Basic fees are based on book value, plus account charges, check charges and performance measurement.

Fees for managed assets are based on average market value and average book value.

The client contact is Doug Wannamaker, vice president-pensions, (416) 863-5227.

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Harris Trust and Savings Bank

111 W. Monroe St., Chicago, Ill. 60603; (312) 461-2121

Master trust assets $26,000,000,000
Master custodial assets $3,200,000,000

Harris Trust and Savings Bank has 48 master trust clients and 69 master custodial clients. Master trust assets are up $1.1 billion from last year. There are eight account supervisors.

The size of the smallest master trust client is $12 million; the largest is $4.4 billion.

Trade date accounting is used.

Master trust services include legal administrative guidance; master consolidation reporting; benefit disbursing; participant record keeping; custody; accounting; ERISA reporting; cash mobilization; performance measurement; securities lending; global custody; investment manager consulting; portfolio analysis and comparison; customized reporting; fail float analysis; and options and futures processing.

Reports begin to be delivered to clients within three days of the period end; on-line reports are available daily. Reports are available on hard copy, magnetic tape, microfiche and on-line.

Each customer is assigned an accounting team consisting of an account executive, administrator, accountant and disbursement coordinators.

Fees are based on the number of managers, amount of assets held in custody and the number of transactions.

The client contacts are Allan A. Brodie at (312) 461-7627, and Walter J. Kowalczyk at (312) 461-7625.

Pensions & Investment Age will publish a directory of international investment managers on June 24.

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International Trust Co.

Royal Bank Plaza, North Tower, 14th Floor, P.O. Box 75, Toronto, Ontario M5J 2J2; (416) 865-0515

Master trust assets $275,000,000
Master custodial assets $900,000,000

International Trust Co. has 12 master trust clients and two master custodial clients. There are seven account supervisors. In the year ended March 31, master trust assets increased $75 million and master custodial assets, $300 million.

The size of the smallest master trust client is $2 million; the largest is $60 million. Settlement date is used for accounting purposes. For reporting, both trade date and settlement date are available.

Basic master trust services include client-managed STIF accounts; global custodial services; cash management; performance measurement; performance analysis and comparison to indexes; benefit disbursing; limited participant record keeping; securities lending; fail purchase; and options and futures processing.

Reports are delivered to clients on the fifth working day after month's end. The bank has on-line capabilities for principle reports.

Fees are based on asset exposure, number of accounts in structure and add-on services. Fee agreement is subject to performance standards determined with each client.

The client contact is Ed Robinson, senior vice president.

Irving Trust Co.

1 Wall St., New York, N.Y. 10015; (212) 487-7980

Master trust assets $10,000,000,000
Master custodial assets $25,000,000,000

Irving Trust has 30 master trust clients and 22 master custodial clients. There are 10 account supervisors. Master trust assets are up $2 billion from last year and master custodial assets, $4 billion.

The size of the smallest master trust client is $13 million; the largest is $5.2 billion.

Both trade date accounting and settlement date accounting are used.

Master trust services include transaction clearance; asset custody; customized reporting; zero-balance cash management; fail float investment credit; global custody; securities lending; specialized short-term investment funds; passive bond management; on-line portfolio statusing; and portfolio analytics.

Reports are delivered to clients five days after the end of the period, either on-line or on hard copy.

Fees are based on the transaction volume and market value.

The client contact is Gary L. Davenport, vice president.

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Manufacturers Hanover Trust

530 Fifth Ave., New York, N.Y. 10036; (212) 286-6000

Master trust assets $16,000,000,000
Master custodial assets $3,700,000,000

Manufacturers Hanover Trust has 53 master trust clients and 10 master custodial clients. There are 14 account supervisors. Master custodial assets increased $3.4 billion in the year ended March 31.

The size of the smallest master trust client is $5 million; the largest is $4 billion.

Trade date and settlement date are available for accounting purposes.

Master trust services include legal administrative guidance; master con-

tion; cash management; benefit disbursing; participant record keeping; securities lending; global custody; performance measurement; investment manager consulting; portfolio analysis and comparison; ERISA reporting; customized reporting; fail float analysis; and options and futures processing.

Reports are delivered to clients within three days after month's end and are available in hard copy, on-line and microfiche.

Fees are based primarily on a percentage of market values. There are special charges for additional services such as on-line terminal access, performance measurement; analytics; plan accounting; and pension check payments.

The client contact is Renee San Marco, (212) 819-1580.

Manufacturers National Bank of Detroit

100 Renaissance Center, 6th Floor, Detroit, Mich. 48243; (313) 222-4471

Master trust assets	$9,200,000,000
Master custodial assets	$2,100,000,000

Manufacturers National Bank of Detroit has 31 master trust clients and 19 master custodial clients. There are 21 account supervisors. Master trust assets increased nearly $1 billion for the year ended March 31.

The size of the smallest master trust client is $4 million; the largest is $8.5 billion.

Settlement date accounting is used. Trade date accrual and unitized accounting are available.

Master trust services include legal administrative guidance; master consolidation reporting; cash management; benefit disbursing; participant record keeping; securities lending; global custody; performance measurement; investment manager consulting; portfolio analysis and comparison; ERISA reporting; customized reporting; fail float analysis; and options and futures processing.

Reports are delivered to clients five days after month's end; on-line capability is provided.

Fees are unbundled, based on asset size and transactions.

The client contact is Robert R. Schoonbeck, senior vice president.

Marine Midland

250 Park Ave., New York, N.Y. 10177; (212) 949-6507

Master trust assets	$1,700,000,000
Master custodial assets	$405,000,000

Marine Midland has 27 master trust clients and eight master custodial clients.

There are 13 account supervisors. Master trust assets increased $263 million from last year. The size of the smallest master trust client is $581,000; the largest is $637 million.

Master trust services include master consolidation reporting; cash management; benefit disbursing; participant record keeping; securities lending; global custody; performance measurement; portfolio analysis and comparison; ERISA reporting; customized reporting; fail float analysis; and options and futures processing.

Reports are delivered to clients 10 business days after month's end. The bank has limited on-line access for reports and is working on adding that capability.

The basic fee is calculated on the basis of decremental rates applied to market value of assets. Other fees are based on transactions and services.

The client contact is Edward Higgins, administrative vice president.

Mellon Bank

1 Mellon Bank Center, Pittsburgh, Pa. 15258; (412) 234-6861

Master trust assets	$40,100,000,000
Master custodial assets	$725,000,000

Mellon Bank has 57 master trust clients and four master custodial clients. There are eight account supervisors. Master trust assets increased $10.3 billion from last year and master custodial assets, $361 million.

The size of the smallest master trust client is $3 million; the largest is $7.9 billion.

Trade date fully accrued reporting is available.

Master trust services include securities lending; benefit payment; participant record keeping; performance measurement; portfolio analysis and review; options and futures processing; index funds; international custody; ERISA reporting; and customized reporting.

Reports are delivered to clients 10 business days after month's end. The bank offers on-line access.

Fees are based on a combination of asset value, transactions and individual services performed.

The client contact is Allen D. Gunderson, vice president.

On June 10, *Pensions & Investment Age* will publish a report on management changes at small- and medium-sized tax-exempt funds.

Mercantile-Safe Deposit & Trust Co.

2 Hopkins Plaza, P.O. Box 2257, Baltimore, Md. 21203; (301) 237-5551

Master trust assets	$5,400,000,000
Master custodial assets	$1,500,000,000

Mercantile-Safe Deposit & Trust Co. has 15 master trust clients and three master custodial clients. There are eight account supervisors. Master trust assets increased $3.7 billion for the year ended March 31.

The size of the smallest master trust client is $3 million; the largest is $500 million.

Settlement date accounting is used.

Master trust services include depository participation; benefit payments; option transactions; security lending; cash management services; investment analysis; investment performance measurement; ERISA reporting and brokerage reporting.

Reports are delivered to clients in five to 10 days on hard copy.

Fees are based on asset value and income collected.

The client contact is H. Louis French, vice president.

M&I Marshall & Ilsley Bank

770 N. Water St., Milwaukee, Wis. 53201; (414) 765-8187

Master trust assets	$1,600,000,000
Master custodial assets	$250,000,000

M&I Marshall & Ilsley Bank has 29 master trust clients and four master custodial clients. Master trust assets increased $400 million from last year. There are seven account supervisors.

The size of the smallest master trust client is $5 million; the largest is $250 million.

Settlement date accounting is used; pending trade schedule is optional.

Basic master trust services include master consolidation reporting; cash management; benefit disbursing; participant record keeping; performance measurement; portfolio analysis and comparison; ERISA reporting; some customized reporting; fail trade analysis; and options and futures processing.

Reports are delivered to clients five to seven days after month's end. Those reports are in hard copy but the bank offers on-line and microcomputer formats for year-end reports.

Fees are based on the market value of assets.

The client contact is Morry L. Birnbaum, vice president.

Montreal Trust

15 King St. W., Toronto, Ontario, M5H 1B4; (416) 860-5848

Master trust assets	4,416,000,000

Montreal Trust has 110 master trust clients with 225 portfolios. There are 14 account supervisors.

The size of the smallest master trust client is $6 million; the largest is $800 million.

Settlement date accounting is used.

Basic master trust services include

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50 Hurt Plaza, Suite 1400, Atlanta, Georgia 30303

corporate trusteeship for consolidated pension fund; consolidated accounting; government reporting; automatic crediting and allocation of dividends, interest and capital gains; trust documentation; portfolio analysis and performance measurement; benefit payment services; securities lending; global custody; options processing; and on-line and microcomputer reporting.

Reports are delivered to clients 10 business days after month's end.

Fees are based on average book value.

The client contact is Ken Neely, assistant vice president-corporate client services.

Master trust/master custody banks*
($ millions)

Rank	Bank	Master trust	Master custody	Total
1.	Chase Manahattan Bank	$ 54,000	$ 47,000	$ 101,000
2.	State Street	38,018	33,047	71,065
3.	Bankers Trust	60,800	7,600	68,400
4.	The Northern Trust Co.	47,016	15,977	62,994
5.	Citibank	16,169	29,161	45,330
6.	Mellon Bank	40,100	725	40,825
7.	Irving Trust Co.	10,000	25,000	35,000
8.	Boston Safe Deposit & Trust	21,003	5,747	26,750
9.	Bank of New York	14,700	9,600	24,300
10.	Harris Trust & Savings Bank	20,000	3,200	23,200
11.	Manufacturers Hanover Trust	16,000	3,700	19,700
12.	National Bank of Detroit	9,350	8,340	17,690
13.	RepublicBank Dallas	15,000	2,500	17,500
14.	United States Trust Company	9,800	4,500	14,300
15.	Wachovia Bank & Trust Co.	13,000	527	13,527
16.	Continental Illinois	11,400	1,800	13,200
17.	Bank of America	12,100		12,100
18.	Manufacturers National Bank	9,200	2,100	11,300
19.	Norwest Bank Minneapolis	2,400	6,000	8,400
20.	Wilmington Trust Co.	7,200	100	7,300
21.	Mercantile Safe Deposit & Trust	5,400	1,500	6,900
22.	AmeriTrust Co.	2,840	1,740	4,580
23.	Citizens & Southern National	550	4,000	4,550
24.	Texas Commerce Bank	1,500	2,800	4,300
25.	First Pennsylvania Bank	1,400	17,100	3,200
26.	First Trust Co. of St. Paul	2,200	500	2,700
27.	First Wisconsin Trust Co.	1,500	846	2,346
28.	Marine Midland	1,700	450	2,105
29.	M&I Marshall & Illsley Bank	1,600	250	1,850
30.	Centerre Trust Co.	1,090	760	1,850
	Totals	**$ 447,037**	**$ 241,375**	**$ 668,262**

*Cutoff is $1 billion in combined Master trust/Master custodial assets

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National Bank of Detroit
611 Woodward Ave., Fifth Floor, Detroit, Mich. 48226; (313) 225-3900

Master trust assets $9,350,000,000
Master custodial assets $8,750,000,000

National Bank of Detroit has 67 master trust clients and 27 master custodial clients. Master trust assets increased $4.2 billion from last year. There are eight account supervisors.

The size of the smallest master trust client is $5.5 million; the largest is $3.2 billion. Trade date and accrual accounting are used.

Master trust services include centralized custody and safekeeping of assets; master consolidated reporting; index funds; ERISA disclosure; fail float guarantee; cash management including STIF; benefit disbursements; participant record keeping; options and futures processing; performance measurement; portfolio analysis; securities lending; and global custodian capabilities.

Reports are delivered to clients five business days after month's end. In addition to hard copy, reports can be obtained via a dedicated terminal and then downloaded into a personal computer.

Fees are calculated by a combination of asset value and individual services.

The client contact is Clarence Kufel, vice president.

The National Victoria & Grey Trust Co.
21 King Street E., Toronto, Ontario M5C 1B3; (416) 361-3838

Master trust assets $2,800,000,000

The National Victoria & Grey Trust Co., formerly National Trust Co., has 38 master trust and master custodial clients. There are 11 account supervisors. The amount of assets given above, as of March 31, includes master custodial assets.

The size of the smallest master trust client is $2 million; the largest is $850 million.

Master trust services are available in Toronto, Montreal, Vancouver, Calgary and Edmonton. The services include trusteeship for consolidated and individual accounting; government reporting; and electronic or paper check pension payments. Master trust system capabilities include on-line terminal installation in client and investment counselor offices; cash flow projections; performance measurement; tape transmissions; automated income posting on a receivable basis; automated master trust unit purchases and redemptions; automated income and capital gain/loss distribution; security settlement system through Manufacturers Hanover; custodial agents in 10 European and three Asian countries; STIF; Toronto Stock Exchange 300 index fund; global (non-North American); call and put options; currencies futures; securities lending; and real estate and mortgage services.

Reporting features include standard and custom consolidated and individual reports; analytical reports; and statements delivered within 10 business days.

The client contacts are D.D. Landreville, vice president-employee benefit services; Charles Mecke, manager; and Julie Spergel, consultant.

The Northern Trust Co.
50 S. LaSalle St., Chicago, Ill. 60675; (312) 630-6000

Master trust assets $47,017,000,000
Master custodial assets $15,977,000,000

The Northern Trust Co. has 132 master trust clients and 45 master custodial clients. There are 24 account supervisors. In addition, all specialty services have a full consultant staff available for clients. Master trust assets are up $5.3 billion for the year ended March 31 and master custodial assets, $10.1 billion.

The size of the smallest master trust client is $14.2 million; the largest is $3.5 billion.

Settlement date accounting is used; trade date reporting is available.

Master trust services offered are legal administrative guidance; master consolidation reporting; cash management; benefit disbursing; participant record keeping; securities lending; global custody; performance measurement; portfolio analysis and comparison; asset allocation; long-range forecasting; investment manager consulting; GIC placement; ERISA reporting; customized reporting; fail float analysis; options and futures processing; strategic investment fund consulting and passive fund offering, including immunized and dedicated bond funds, commingled index funds, equity index financial futures fund; asset allocation control of portfolio through the use of futures; synthetic cash; and real estate consulting, particularly for sale-leasebacks.

Reports to clients are delivered three to five business days after the end of the period, with 24-hour on-line capabilities for accounting and performance reports.

Fees are based primarily on assets' market value.

The client contact is Michael S. Terry, vice president, at (312) 444-3972.

Norwest Bank Minneapolis, Capital Management & Trust
Eighth & Marquette, Minneapolis, Minn. 55479; (612) 372-5983

Master trust assets $2,400,000,000
Master custodial assets $6,000,000,000

Norwest Bank has 12 master trust clients and 15 master custodial clients. There are five account supervisors. Master trust assets increased $1.3 billion from last year and master custodial assets, $2.8 billion.

The size of the smallest master trust client is $1 million; the largest is $375 million. Trade date and settlement date accounting are available on a cash or accrual basis.

Master trust services include automatic cash management; benefit disbursement; cash forecasting; consolidated reporting; ERISA disclosure assistance; participant record keeping; performance measurement (with TUCS); plan accounting; securities lending; securities safekeeping; and security settlement.

Cash and asset reports are delivered to clients one to five days after the period's end; hard-copy plan reports are delivered 15 days after. On-line capabilities are possible.

Basic fees are based on assets' market value plus transactions.

The client contacts are Steve Dillanburg, assistant vice president-corporate endowments and foundations, and Bob Edgar, assistant vice president-corporate and public funds.

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RepublicBank Dallas
P.O. Box 241, Dallas, Texas 75221; (214) 922-6506

Master trust assets $15,000,000,000
Master custodial assets $6,850,000,000

RepublicBank Dallas has 205 master trust clients and 23 master custodial clients. Master trust assets increased $2.9 billion from last year. There are 13 account executives.

The size of the smallest master trust client is $3 million; the largest is $4 billion.

Trade date and settlement date accounting are available. Accounting also is provided on a cash or accrual basis.

Basic master trust services include master consolidation reporting; cash management; cash forecasting, fail float earnings; on-line performance measurement; portfolio diagnostics; benefit payments and withholding; participant record keeping; 401(k) and PAYSOP administration; TUCS; securities lending; options processing; 150 accounting investment reports; plan accounting; international custody; ERISA reporting; customized reporting; index funds; and dedicated portfolios, either bonds or GICs.

Reports are delivered to clients five days after month's end. Report format options include on-line delivery and microcomputer.

Fees are calculated on a percentage of the market value and transaction charges.

The client contacts are David J. Pittman and Jerry L. Turner, senior vice presidents.

s

State Street Bank & Trust Co.
P.O. Box 1713, Boston, Mass. 02105; (617) 786-6353

Master trust assets $38,018,000,000
Master custodial assets $33,047,000,000

State Street Bank & Trust Co. has 90 master trust clients and 52 master custodial clients. There are 18 account officers and 33 account supervisors, servicing a total of 1,260 client portfolios.

State Street's master trust assets are up $7.9 billion for the year ended March 31; master custodial assets are up $10.1 billion.

The size of the smallest master trust client is $3 million; the largest is $15.2 billion.

In addition to tax-exempt pension and endowment accounts, State Street provides custody services for $158 billion in mutual fund assets. Accounting and record keeping is pro

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vided on a true trade date, full accrual basis.

Master trust services include safekeeping of assets; cash management through several short-term investment vehicles, including STIF, Maturity Plus STIF, Government STIF, SPIFF and SPIFF Plus; settlement and control of all portfolios trades; corporate action monitoring; determination and collection of income; cash availability reporting; accounting for options, futures and real estate; interactive general ledger accounting; DTC and FBE participation; on-line institutional delivery system; daily, weekly or monthly valuation of assets; fiduciary control; plan accounting, 401(k) capabilities; benefit payments; participant record keeping; securities lending; and global custody network with multicurrency accounting.

In addition, performance measurement and analytic services are offered, including a universe that comprises 354 portfolios, $29.5 billion in assets and 151 managers.

On-line access capabilities are available for portfolio accounting information and performance measurement. Clients can customize their reports and download their information through on-line access services using the IBM-PC. Reports are available in hard copy, microfiche and through remote printing capabilities.

The organization is client-driven and reports are delivered between five and seven business days after month's end.

Fees are based on asset value, portfolio structure and trading volumes. Optional services are unbundled.

The client contacts are Mike Herlihy, vice president for corporate, union, endowment and foundation plans, and J.D. Nelson, vice president for public funds.

t

Texas Commerce Bank

P.O. Box 2558, Houston, Texas 77252; (713) 236-5788

Master trust assets $1,500,000,000
Master custodial assets $2,600,000,000

Texas Commerce Bank has 18 master trust clients, 15 master custodian clients, and 63 other tax-exempt institutional custodial clients. Master trust assets increased $400 million in the year ended March 31. There are 10 account supervisors.

The size of the smallest master trust client is $4 million; the largest is $575 million.

Actual settlement date accounting is used.

Basic master trust services include legal administrative guidance; master consolidation reporting; cash management; benefit disbursing; participant record keeping; a limited securities lending capability; performance measurement; limited investment manager consulting; portfolio analysis and comparison; customized reporting; and options and futures processing.

Investment reports are delivered to clients 10 days after month's end. Fees are based on the volume of activity generated.

The client contact is Russell K. Schulze II.

u

United States Trust Co. of New York

45 Wall St., New York, N.Y. 10005; (212) 806-3834

Master trust assets $9,800,000,000
Master custodial assets $4,500,000,000

United States Trust Co. of New York has 70 master trust clients and

Canadian master trust banks*
($ millions)

Rank	Bank	Master trust	Master custody	Total
1.	The Canada Trust Co.	$ 2,780	$ 4,850	$ 7,630
2.	Montreal Trust	4,416		4,416
3.	Canada Permanent Trust	2,800	1,000	3,800
4.	The National Victoria & Grey	2,800		2,800
5.	International Trust Co.	275	900	1,175
6.	Guaranty Trust Co. of Canada	1,120		1,120
	Totals	**$ 20,756**	**$ 6,750**	**$ 27,506**

*Cutoff is $1 billion in combined Master trust/Master custodial assets

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33 master custodial clients. There are 10 account supervisors. Master trust increased $700 million from last year. Master custodial assets dropped $1.4 billion. The size of the smallest master trust client is less than $25 million; the largest is $2.3 billion.

Trade date and actual or contractual settlement date can be used for accounting procedures.

Master trust services include trade processing; safekeeping; collection of interest and dividends; weekly and cumulative monthly statements; monthly valuations and quarterly allocations and accounting.

Additional master trust capabilities include on-line performance measurement, investment diagnostics and analytics; passive investment; benefit disbursing; global custody; securities lending; ERISA reporting; customized reporting; options and futures processing; performance measurement and analytics; passive investment vehicle design; return optimizers; cash sweep; on-line customer accounting and valuations; off-site report generation; global custody; benefit payments; and securities lending. For eleemosynary institutions, tax-lot accounting, gift processing and regulatory reporting are offered.

Reports are delivered to clients two to 10 days after month's end.

Fees are unbundled and include account, transaction and asset value charges. Other charges exist for specialized products.

The client contact is Robert Pagano, vice president.

W

Wachovia Bank & Trust Co.

P.O. Box 3099, Winston-Salem, N.C. 27150; (919) 748-6348

Master trust assets	$13,000,000,000
Master custodial assets	$527,000,000

Wachovia Bank & Trust Co. has 37 master trust clients and five master custodial clients. Master trust assets increased $1 billion from last year. There are 10 account supervisors.

The size of the smallest master trust client is $13.1 million; the largest is $3.2 billion.

Trade date adjusted accounting is employed.

Master trust services include accounting; benefit disbursement; cash management; foreign custody; options and financial futures; securities lending; ERISA disclosure assistance; performance measurement; on-line access and portfolio review; legal administrative guidance; master consolidation reporting; and participant record keeping.

Reports are delivered 10 days after the end of the period, either on hard copy or on-line.

Fees are based on a combination of market value and specific services provided.

The client contact is Jane B. Fisher.

Wilmington Trust Co.

Rodney Square North, Wilmington, Del. 19890; (302) 651-8554

Master trust assets	$7,200,000,000
Master custodial assets	$100,000,000

Wilmington Trust has six master trust clients and 20 master custodial clients. Master trust assets increased $700 million from last year. There are five account supervisors.

The size of the smallest master trust client is $70 million; the largest is $5.2 billion.

Trade date accounting is used. It also has settlement date capabilities.

Basic master trust services include master consolidation reporting; cash management; benefit disbursing; participant record keeping; performance measurement; audit detail reports; global custody; ERISA reporting; executive summary; management detail; customized reporting; and options and futures processing.

Reports are delivered to clients 15 days after month's end.

Fees are based on a percentage of asset market value and trading activity.

The client contact is Richard W. Flynn, assistant vice president.

P&I Age will publish a report on middle market funds June 10.

Shakeout seen blurring . . .

Continued from page 19

west Bank, Minneapolis, believes there will be fewer than 10 major master trust players once the shakeout is complete, and those that make the cut will be banks that offer state-of-the-art technology.

"Unless you make the commitment to be state-of-the-art, you will have difficulty attracting clients," Mr. Edgar said. "That's the competitive nature of the business."

Master trust bank officers agree that developing technology and providing enhanced services are two keys to success in the future and each agreed this technology enhancement will not be cheap.

Chase Manhattan Bank, New York, the largest master trust bank in the country, has invested heavily in its master trust computer system. Officials at Chase estimate it would cost about $20 million to $25 million to replace existing hardware alone. Chase spends approximately $15 million annually on data processing and another $10 million on software development in its master trust area.

The bank is expanding its computerized master trust capability by installing a new facility, called Prism, using IBM computers to allow its clients to be totally on-line with direct access to the bank's data base. It will be implemented in phases, starting later this year, according to John Sweeney, Chase vice president.

"What I see out there is that everyone wants on-line management information," Mr. Sweeney said. "The depth and range of information is increasing all the time, and what we are doing is building a tremendous enhancement to our management information system."

He said even the regionals that survive the shakeout "will have declining business after a period of time because they will find the purchase and installation of on-line computer equipment will be far too expensive, and they need a large customer base to be able to install it. We couldn't get it unless we were large in the business and getting larger."

Mike Herlihy, vice president at State Street Bank and Trust Co., Boston, which has $71 billion in master trust and master custodial assets, said State Street spends $4 million each year on software alone in the area.

"We also have a dedicated systems development group of 50 people dedicated to the custodial business . . . enhancing existing systems and building new ones," he said.

If there is general agreement that a shakeout is taking place in the master trust industry, there is virtual unanimity that master trustees in the future will depend on computer technology and that it will be more difficult to select a master trust bank because they all will be offering essentially the same sophisticated services.

Clients will face a bewildering array of sophisticated technology designed to add specialized services to the basic master trust/custodial service, the experts say. The selection of a master trustee might depend on the human touch of how well client and bank interact with each other.

"It comes down to the chemistry of the people," said Norwest's Mr. Edgar. "If there is no greater expertise and if existing capabilities are the same, and usually it is the same . . . it comes down to the comfort level of the client with the people he meets and the reputation of the institution."

RepublicBank's Mr. Pittman said the future of the master trust bank depends on continually evolving and analyzing, anticipating and meeting client needs.

"What you are finding is that master trusts are doing what they are supposed to, but it is continually evolving all the time, which allows for cost reductions," he said.

"In the future, success will depend on being in there with state-of-the-art systems and having a commitment to continuing to be state-of-the-art, (and) secondly, having the professionals dealing with clients. You can have state-of-the-art systems, but if the people don't know what they are doing and aren't responsive, they aren't going to last long."

Mr. Pittman said it is the nature of the master trust provider to update and develop new peripheral services in order to meet client needs. He mentioned such developments as on-line performance measurement, index funds, analytics, aggressive cash management techniques, global custody arrangements, options and futures accounting and Depository Trust Co. transactions balance monitoring.

Mr. Pittman said master trustees increasingly are involved in pension fund activities.

"As these developments take place, we try to point out to the sponsors new ideas for administering the fund more efficiently," he said.

"It's going to be enhancement that makes the difference, the development of peripherals. The major difference is going to be responsiveness to clients and working with them in areas of cash management and performance measurement."

Regional master trust providers who will not be on the cutting edge of technology development will remain competitive and would do well to develop special niches, according to Richard W. Hibbs, vice president at Centerre Trust Co. of St. Louis.

"For the regionals, if they are smart, they will provide a competitive level of technology," Mr. Hibbs said. "We're not going to invent things, but will provide them after they have been received in the marketplace and will customize these systems to meet client needs.

"The so-called second tier of master trust banks will have the benefit of seeing what works and will maintain their reputations with accepted technology rather than being on the cutting edge."

These second-tier institutions also can maintain profitability and client base by specializing in niches like Taft-Hartley funds, endowments or other narrow-target areas, said Mr. Hibbs.

"We have targeted the Taft-Hartley area and feel we have a good relationship in that area and it is the kind of business we want to pursue," he said.

The technology development argument does not inspire agreement from Mr. Feldman, a master trust search consultant with Hewitt Associates.

"Most enhancements to master trusts have been of little economic benefit to their clients in my view," Mr. Feldman said. "Daily sweeps and securities lending clearly had an economic advantage. I'm not sure the sophisticated performance management systems, exotic screens and filters have had an economic benefit. These new systems developments have been largely for marketing purposes.

"Most plans don't need them. They need basic accurate accounting and timely reports. The banks with systems in place can develop the reports, and after that it is the people that will make the difference. The people who will take the time to make sure the reports are out on time and who work to track down any errors that may occur. Once the basic system is in place, it becomes a people business like any other banking service.

"The searches I've been involved in recently usually come down to the same few organizations. It is difficult for the client to choose one. I encourage them to visit the bank. They all seem to have a different personality. While the major players are difficult to distinguish (by services offered), they each have separate and distinct personalities which can be evaluated."

All the talk of technology development and sophisticated computer systems also has a note of irony.

Pension fund assets are swelling because of superior investment returns and research shows most pension funds are well funded today, causing many to terminate overfunded plans to recover surplus assets.

"If they terminate the plan and cash out and start a new defined benefit plan, it usually will be a less complicated plan. The irony is that the master trusts are becoming more sophisticated where the trend is to more simplicity in the pension plans," Mr. Feldman said. ■

Datebook entries

Pensions & Investment Age's regular **Datebook** section has expanded its coverage considerably.

In addition to its general coverage, it includes listings of upcoming events in the categories of real estate, corporate finance and cash management.

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Trustees smooth transitions

Funds welcome aid

By Trudy Ring

Pension fund officials say their master trustees help smooth what could be a bumpy road when investment responsibility is shifted from one manager to another.

Although they vary in the amount of assistance they ask of their master trustees in such cases, the pension executives interviewed said they generally receive the type of service they need from master trust banks.

"They certainly make the process much easier," said J.A. Stone, assistant treasurer of Ex-Cell-O Corp., Troy, Mich. The pension fund's master trustee, National Bank of Detroit, has performed valuable services when management changes were made, he said. However, the fund hasn't had frequent management changes.

"The last time we made any changes was in 1983, when we hired two new equity managers," Mr. Stone said. "Having a master trustee was just terrific. We got good, prompt lists of the assets and current market prices."

From those lists, he said, the new managers could determine which securities they wanted to continue to hold and which they wanted to sell.

A big plus in having a master trustee, he said, was the assets never actually had to change hands — they all were held at the bank. "It's so great because you know you're not going to miss a step," Mr. Stone said. "If you're working between two independent managers, there's so much more that could happen."

H. Scott Snead, manager of pension investments for Johnson & Johnson, New Brunswick, N.J. agreed the process of making management changes is much smoother with a master trustee than without.

He said he had experience in changing managers without the help of a master trustee when he was with another company.

"I was directing a lot of the sales and transfers and I found it very awkward," Mr. Snead said.

However, the only management change he has made at Johnson & Johnson went "smoothly and with alacrity" with the help of the fund's master trustee, Bankers Trust Co., New York. He just notified Bankers Trust of the change and the trustee took care of it, he said.

Another pension sponsor that has had infrequent investment management changes, but found its master trustee helpful in those cases, is Deere & Co., Moline, Ill. Deere, which runs about two-thirds of its assets in-house, has hired only one manager and terminated two in the past five years, said Carl Liebscher, director of investments.

"When we did do the shifting, we had some assistance that we had asked for from the master trustee," Mr. Liebscher said. Deere's master trustee is Boston Safe Deposit & Trust Co.

He noted some shifts don't call for much assistance. Shifting assets from one in-house account to another is "a matter of extreme simplicity," he said.

Other shifts, however, are more complex. For instance, GATX Corp., Chicago, recently did a major restructuring of its pension fund management roster, hiring six firms and dropping seven. Its master trustee, Northern Trust Co. of Chicago, was "very helpful" in the shift of assets, said Mark Gutman, manager of pension fund investment.

GATX officials weren't available for further comments on the nature of the assistance. Northern Trust officials declined to discuss the GATX situation in particular, but said there are several services they generally perform when management changes are made.

Normally, the master trustee selects an effective date for the termination and puts together a list of the terminated manager's assets, said Doug Mitchell, vice president and head of Northern's master trust services. The trustee and sponsor can show these assets to the new manager or managers, who then can decide which securities to retain.

"Because it's still with the same trustee, that new manager is in a position right there to begin to run those assets, day one," Mr. Mitchell said. ■

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Banks rush . . .

Continued from page 19

Wells Fargo Bank has 18 master trust clients with $2.7 billion in assets and 12 institutional custody clients with $1.5 billion in assets, Mr. Kozlen said.

As "preferred successors," the bank has chosen Boston Safe Deposit and Trust Co. for the master trust accounts and First Interstate Bank of California, Los Angeles, for the custodial accounts, he said.

"Clearly, we will cooperate with any designated successor," Mr. Kozlen added. He declined to say if the bank will receive a fee for referring clients to Boston Safe or First Interstate.

The cost of providing master trust services is a factor that might lead to more regional banks leaving the business, Mr. Kozlen said.

"We believe the major participants are spending, in some cases, millions of dollars a year on enhancements," he said.

Costs were a factor that led to FNB Chicago's decision. Because overhead is high in the master trust business, it is difficult to support without a very large client base. FNB Chicago officials said the directed trust operation took a disproportionate share of resources for the amount of the market it represented. They said the service's profit margin fell below internal and industry standards.

In announcing the decision to leave the directed trust business, Lawrence Russell, senior vice president, said, "Only those few banks that have positioned themselves as major providers of directed trusts will be able to achieve satisfactory profit margins from this business in future years."

FNB Chicago chose Northern Trust Co., Chicago, as its preferred successor, but will cooperate with any other that a client chooses, said Keith Brown, vice president for marketing. Several clients have gone to Harris Trust & Savings Bank, Chicago.

FNB Chicago intends to close out its master trust accounts by year end, while Wells Fargo plans to be out of the business by midyear, officials said. Mr. Brown noted FNB Chicago's investment subsidiary, First Chicago Investment Advisors, will retain the capacity to provide record keeping and accounting services for its clients.

Despite the costs involved, banks are rushing to serve FNB Chicago and Wells Fargo clients.

Lloyd Hudgions, director of trust fund administration for Whirlpool Corp., Benton Harbor, Mich., said he was contacted by about 30 banks wanting to replace FNB Chicago as trustee.

Whirlpool narrowed the field by limiting finalists to those from the Midwest, and chose National Bank of Detroit as the new master trustee for its $708 million in employee benefit assets, Mr. Hudgions said.

An official of the Kaiser Steel Corp. pension fund in Fontana, Calif., said the company has been contacted by nearly every major bank since Wells Fargo made its announcement. Fund officials expect to hire a new master trustee no later than mid-June.

Several other Wells Fargo clients, such as Clorox Co., Oakland, Calif., and the American Chemical Society, Washington, D.C., still are searching for new master trustees or custodians.

A few clients ended custodial or master trustee relationships with Wells Fargo before it announced it was discontinuing the service.

Baker International Corp., Orange, Calif., had three pension funds under three trustees — First City National Bank, Houston; Wachovia Bank & Trust Co., Winston-Salem, N.C.; and Wells Fargo. To achieve economies of scale, the company consolidated the $200 million in funds under one master trustee, Northern Trust.

Hewlett-Packard Co., Palo Alto, Calif., with less than $1 billion in employee benefit assets, chose Harris as master trustee, effective May 1. Wells Fargo and Crocker National Bank, San Francisco, were dropped.

Several FNB Chicago clients, including Baxter Travenol Laboratories Inc., Deerfield, Ill., Harnischfeger Corp., Milwaukee, and Edward Hines Lumber Co., Chicago, had not hired new master trustees at press time. Those that had selected replacements generally said the transition didn't create major problems.

"It has worked out rather well," Whirpool's Mr. Hudgions said. "They (FNB Chicago) have been just super with us as far as the conversion process. I think First of Chicago is a class organization."

"They're not the only provider of such services in the world, so you make alternate arrangements," said Arnold Brookstone, chief financial officer of another former FNB Chicago client, Stone Container Corp., Chicago. "It's not a big deal."

Stone Container chose Harris as the new master trustee for its $21.3 million in pension assets.

Also going with Harris was Stepan Co., Northfield, Ill., with $24.6 million in assets. Harris, one of four candidates, won out because of its systems, support personnel and existing commercial banking relationships with Stepan, said Andrew Koszyk, manager of credit and banking. The arrangement is effective Sept. 1.

Another that went to Harris was SFN Cos. Inc., Glenview, Ill., with $72 million in assets.

Brunswick Corp., Skokie, Ill., hired Irving Trust Co., New York, as master trustee for its $245 million in benefit assets. "Their service, we felt, was the best for our requirements," a company official said. The firm looked at more than a dozen candidates.

Kerr-McGee Corp., Oklahoma City, chose Mellon Bank, Pittsburgh, as master trustee for its $175 million pension fund. More than 10 banks were considered.

Inland Steel Co., Chicago, went with FNB Chicago's preferred successor, Northern Trust, as master trustee for its $1 billion in pension assets. However, FNB Chicago's statement of preference had no influence on the choice, a company official said. He added the transition was "no problem."

No statistics were available on how many of FNB Chicago's other directed trust clients have gone to Northern Trust.

However, Quigg Porter, a Northern Trust vice president, did say "movement to the Northern Trust Co. is proceeding apace. The Northern Trust feels it was a good match."

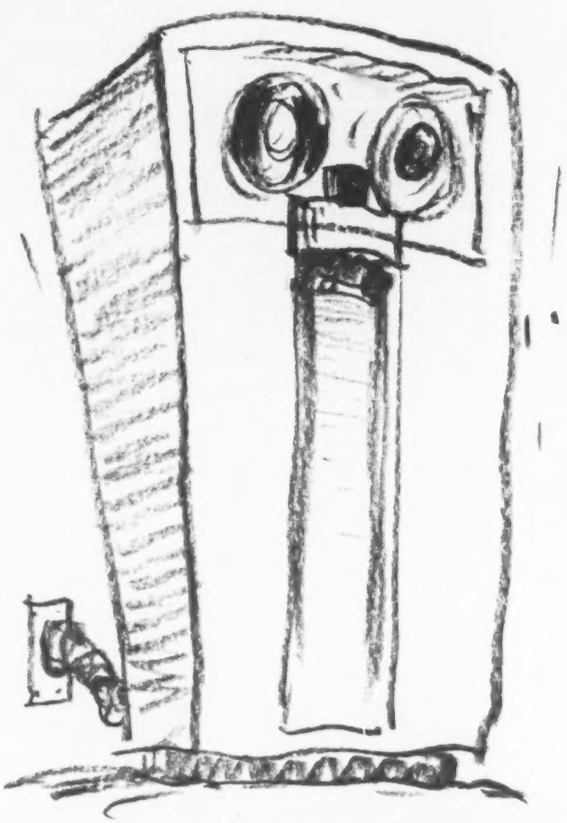
As for staying in the master trust business while other banks are getting out of it, Mr. Porter said, "Any bank, to be a significant competitor in the master trust area, must have sufficient capital to commit to the business. It's understandable that some banks will have trouble achieving the necessary scale in master trust."

FNB Chicago's Mr. Brown said bank officials continue to believe the decision to leave the directed trust business was the right one in view of the market share.

"We have no appetite for returning to the directed trust business," he said.

FNB Chicago had master trust clients with assets of $7.8 billion, ranking it 21st among master trustees in last year's *Pensions & Investment Age* survey.

Mr. Brown noted any hindsight about the decision would be relatively short hindsight, as the bank's directed trust clients are still making the transition. ■



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Foundations lag indexes

NEW YORK — Endowments and foundations underperformed the Standard & Poor's 500 stock index and Salomon Brothers Corporate Bond index during the first quarter of 1985, according to Colonial Consulting Corp. Inc.

The New York consulting firm's endowment and foundation data showed gains of 6% during the three months ended March 31 and 15.7% for the 12-month period.

Measured against a base rate of 100 in March 1975, the combined index advanced to 286.88 from 270.55 at the end of the previous quarter and from 248.01 a year ago.

The typical endowment and foundation fund in the survey has an asset mix of 60% stocks and 40% bonds and cash, according to John K. Goodrich, president of Colonial Consulting. A portfolio with a similar mix invested entirely in the S&P and Salomon Brothers indexes would have returned 6.7% for the quarter and 19.8% for the year, Mr. Goodrich said.

The endowment component of the index advanced 5.9% in the first quarter of 1985, to 286.79 from 270.85 (against a base rate of 100 in March 1975), and 15.3% during the past 12 months, to 286.79 from 248.81.

The foundation component showed a slightly stronger gain of 6.2% from the latest three months and 16.1% for the year, to 276.38 from 260.17 and 237.99 respectively.

The mean rate of return of the universe was 5.8% for the quarter and 16.9% for the latest 12 months.

Mr. Goodrich noted the index never has caught up to the Consumer Price Index since falling behind in the first quarter of 1973.

But he pointed out the most recent data show it to be as close as it ever has been since then.

Measured against a base rate of 100 in 1971, the index has a mean value of 257, compared to 259 for the CPI, Mr. Goodrich said.

The index is compiled from 81 participating funds ranging in size from $400,000 to $2.5 billion, invested by a total of 66 institutions.

Soft-dollar use . . .

Continued from page 19

said an official at one soft-dollar broker, "but the ones we're seeing are very large."

While relatively few funds are taking advantage of soft dollars to pay their master trustee bills and all banks interviewed in the phone survey accept such payments, the potential for trimming costs is substantial.

Soft dollars cover between one-third and one-half of the master trustee fees incurred by the $350 million CIBA-Geigy Corp. pension fund, said Jon W. Swenson, assistant treasurer of the Ardsley, N.Y.-based firm.

However, the very size of master trustee fees might be a negative factor in their being offset by soft dollars.

Master trustee fees run roughly three to five times as large as consultant fees, depending on the size of the fund, the level of services performed and the type of managers, explained David Pittman, senior vice president of RepublicBank Dallas.

"You just can't direct that amount of commission business," said Lynch, Jones' Mr. Jones. Investment managers cannot handle more than 15% to 20% of their trades being directed or execution will suffer, he said.

In addition, publicity and an ominous regulatory environment have scared pension funds from using soft dollars more often, some said.

Concerns raised by the Department of Labor and the Securities and Exchange Commission about the rebates have caused pension executives to place a freeze on expanding their soft-dollar activity, some said.

"People are very cautious because the SEC and the DOL are looking at it," said John Sweeney, vice president of Chase Manhattan Bank, the nation's largest master trustee.

While several saw no legal problem in using soft dollars to pay consulting fees, some said using them for master trustee fees fell into a "gray area."

Performance measurement supports investments, while master trustee duties are more administrative, explained RepublicBank's Mr. Pittman.

The $1.5 billion National Rural Electric Cooperative Association pension fund limits use of soft dollars to "non-controversial" areas, such as consulting fees, noted Peter Morris, manager of investments for the Washington-based fund.

The government's actions have angered some.

"Washington is setting the pension industry into a sting operation," said Jon Brightman, vice president of Harris Trust and Savings Bank, Chicago.

The SEC and the Labor Department "are waiting for there to be so much abuse that they will close down (soft-dollar payments) for good," he said.

However, others do not believe the government will shut the door on soft-dollar payments, although some government officials have said they personally favor unbundled commissions (*Pensions & Investment Age*, Feb. 4).

"I think the government aspect of this has substantially clarified the area," said Carl Acebes, chairman of Rochdale Securities Corp., a New York-based broker that makes soft-dollar payments for pension fund clients.

However, he thinks fund-directed brokerage has reached a plateau. Client-directed business "might grow in dollar amount but not in percentage terms," he said.

But others foresee an expanding use of soft dollars by pension funds.

"I also see more plan sponsors moving in that direction and more master trustee banks getting involved in understanding how it could be done," said Richard McSherry, vice president of Kent Associates, the money-management arm of Abel/Noser Corp. of New York, which has advocated pension fund use of soft dollars.

Four major bank trust departments have asked Kent Associates for advice recently, Mr. McSherry said.

"Every year when fee discussions come up and master trust fees go up, that's a very tough discussion," he said. ■

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PIPER

The statistical data are extracted from Pensions & Investments' Performance Evaluation Report, a quarterly performance evaluation published by Pensions & Investment Age. *PIPER details comparative performance data on equity and fixed-income funds at more than 200 banks and insurance companies. PIPER is compiled by Rogers, Casey & Barksdale Inc., Stamford, Conn.*

Eclectic managers unusually successful

By Alan Krauss

Investment managers that followed a mixed bag of strategies led commingled special equity funds to an unusually successful first quarter in 1985, according to the most recent PIPER results.

More than 55% of the funds surveyed for Pensions & Investments' Performance Evaluation Report turned in better returns than the benchmark Standard & Poor's 500 stock index, which advanced 9.2% during the three months ended March 31.

Among the PIPER funds, Citibank's $230 million Special Situations fund was in the top spot for the quarter, returning 17.7%. The median PIPER return was 10.1%.

Citibank's fund is invested in stocks of companies or industries whose basic businesses are undergoing secular restructuring, according to portfolio manager Ron Wiener, a vice president of Citicorp Investment Management. Cyclical considerations are relegated to a secondary, or even tertiary, level, he said.

"We're looking for change at the interior level of a business, either for internal reasons — if a company is reorganizing — or for external ones, for example, if an industry is being deregulated. We're looking for change that is endemic to that company," Mr. Wiener said.

He said one important reason for the fund's success during the first quarter was a heavy investment in a variety of broadcasting stocks, among them **Storer Communications Inc., Capital Cities Communications Inc., Cox Communications Inc., The Washington Post Co.** and **Telecommunications Inc.**

Mr. Wiener said he got into the industry about a year ago in anticipation of expanded Federal Communications Commission limits on broadcast station ownership. The move paid off when the FCC announced it would allow a single company to own as many as 12 television stations.

Apart from its broadcast holdings, Mr. Wiener said, the fund is an eclectic collection of stocks with no industry bias.

He foresees no shift in the fund's investment strategy in the near future. Mr. Wiener said he plans to maintain a "not-insignificant" position in broadcasting stocks, but that because they have become increasingly expensive, he will begin to shift some cash flow to new areas of investment, which he declined to identify.

HT Investors Inc. of Providence, R.I., rode last winter's roller-coaster market to the second-best return for the year's first quarter, 17.6%.

Dave Mulanaphy, one of the $10 million fund's two portfolio managers, said the reason for the outstanding quarter was simple: "In a nutshell, we were overweighted in technology stocks that we bought last fall."

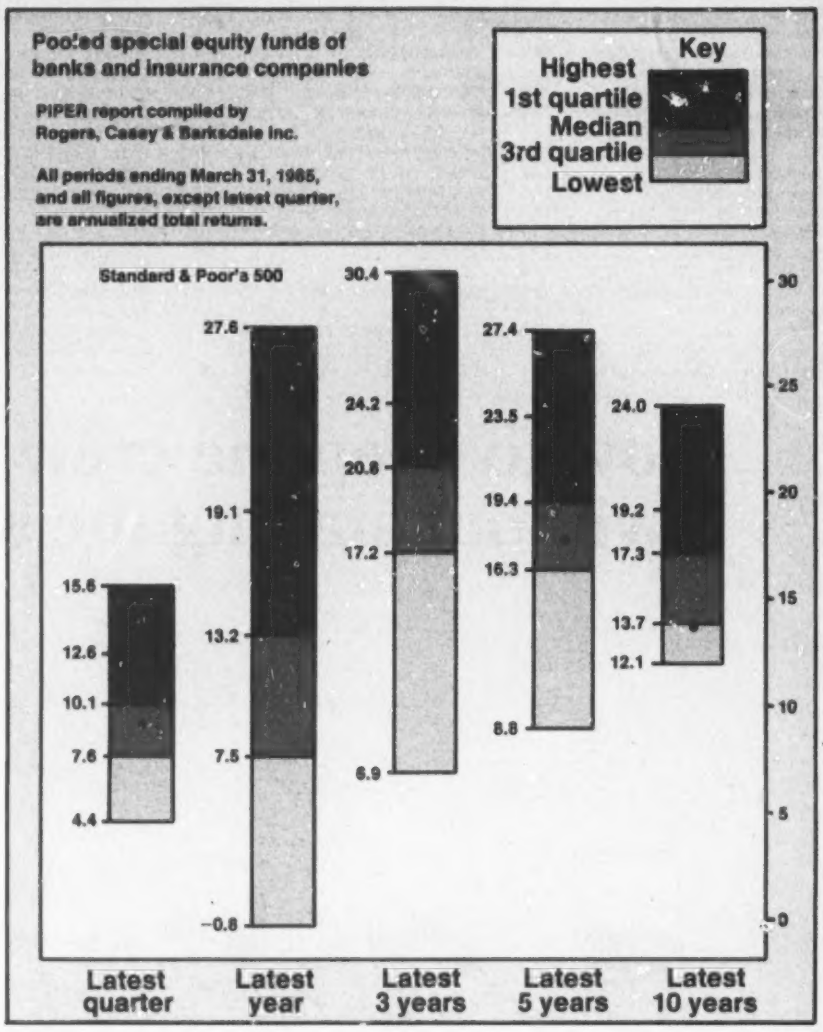
He said he sold most of them in early February at good profits, including **Apollo Computer, Emulex Corp., Western Digital** and **Digital Switch**.

"These things were up on stilts and so I took some profits," he said.

Mr. Mulanaphy said that after temporarily sitting on the cash generated by the February sales, the fund now has adopted a more defensive posture. He said he doesn't know whether the fund will return to technology stocks this year.

"The signs continue to show a very weak economy and obviously these companies are

Continued on page 39



International managers fail to beat the market

By Rose Darby

The first quarter of 1985 held challenges that made it difficult for international and global managers to outperform the market, figures in Pensions & Investments' Performance Evaluation Report show.

Indeed, Capital International's Europe Australia Far East Index outperformed all 29 of the bank and insurance company commingled funds monitored, with a time-weighted compound annual total return of 9.6% for the quarter.

PIPER tracks and compares the investment returns of both equity and bond international and global portfolios because of the scarcity of funds in the universe and the relatively short time the area has existed as an option for U.S. investors.

Bankers Trust Co., New York, had the champion fund for the quarter ended March 31, with a time-weighted compound annual total return of 9.5% for its equity portfolio.

That $60 million portfolio is run by BT Investment Management in London, explained Jeremy Fillenham, managing director.

During the coming year, "One of the major influences will be continued turmoil on the currency front," he said. "I would certainly expect the dollar to fall over the current year."

There is considerable potential for investors in countries such as West Germany and Japan, which have considerable potential for domestic growth in the coming year, unlike the United States, he said.

"Against that backdrop, corporate profits outside the U.S. should be capable of showing further growth," Mr. Fillenham concluded.

Coming in a close second for the quarter was American National Bank & Trust Co., Chicago, with 9.4%.

The reason for that $10 million equity portfolio's success was that it is an index fund, explained Jack Tilton, senior vice president and head of investment management.

Chase Manhattan Bank, New York, had the third best performing fund for the quarter, with a 7.6% return on its global equity fund, and HT Investors, Providence, R.I., was fourth, with 7.4% on its international equity fund.

For the year ended March 31, the top performer was First National Bank of Chicago's International Dollar Fixed Fund, with a 17.9% time-weighted compound annual total return.

That $46 million fund is managed by First Chicago Investment Advisors.

It is made up of international dollar-denominated Eurodollar and Yankee dollar bonds, said Nimrod Fachler, assistant vice president.

"We don't think in terms of maturity but more in terms of duration," he explained.

When yields are expected to fall, lengthening duration of a portfolio improves the chances for capital appreciation, he said.

"This year ended March 31, we were carrying a duration higher than current indexes since yields were falling," Mr. Fachler said.

As a result, "we got a better capital appreciation and therefore a better total return than the marketplace."

"Next year, there is still room for yields to keep falling," he said. "So, we will maintain a very aggressive posture, which means a high-duration position and if we are right and yields continue to fall, then we should be able to beat the index by a substantial margin."

On First Chicago's heels for the year is Prudential Insurance Co. of America, Newark, N.J., with an 11.3% time-weighted compound annual total return on its global bond fund.

Crocker National Bank, San Francisco, was third with 9.2% on its foreign equity fund.

The EAFE index returned 2.5% for the year.

For the three years ended March 31, IDS Trust Co., Minneapolis, was the leader with a 22.7% compound annual time-weighted total return.

Bankers Trust's international equity placed second with 20.4% return and First Chicago's international dollar fixed fund was third with 19%.

The EAFE had 18.2% time-weighted compound annual return for the three-year period.

If the time periods are extended to five and 10 years, the number of funds reporting thins dramatically. Only 10 of the 29 funds in the PIPER international universe were ranked for those periods.

For the five years, First Chicago topped the list with a 15.9% compound annual time-weighted return on its international dollar fixed fund.

U.S. Trust Co., New York, was second with 15.4% on its international pooled fund and Bankers Trust was third with 14.9% on its international equity fund.

The EAFE returned 14% for the five-year period.

For 10 years, only four portfolios reported results. First among these was U.S. Trust with a 13.8% annualized time-weighted total return.

Morgan Guaranty was second, with a 12.8% return on its international equity fund. ■

Commingled international funds

3-month returns

	%
EAFE	9.6
Bankers Trust, N.Y.	9.5
American National, Chicago	9.4
Chase Manhattan, N.Y.	7.6
HT Investors, R.I.	7.4
Marine Midland, N.Y.	7.2
Travelers Hill Samuel, Conn.	6.9
First of Chicago	6.9
Fidelity Mgmt. Trust, Mass.	6.3
American Security, D.C.	6.2
Bessemer Trust, N.Y.	5.8
CIGNA Corp., Conn.	5.6
Aetna Montagu, Conn.	5.1
Centerre Trust, Mo.	5.1
Morgan Guaranty, N.Y.	5.1

1-year returns

	%
First of Chicago ($ fixed)	17.9
Prudential (global bond), N.J.	11.3
Crocker Natl., Calif.	9.2
EAFE	2.5
American Natl., Chicago	2.0
Morgan Guaranty (bond), N.Y.	0.8
Bankers Trust, N.Y.	0.5
Travelers Hill Samuel, Conn.	0.2
First Chicago (equity)	-1.9
Prudential (Foreign bond), N.J.	-2.7
American Security, D.C.	-4.4
U.S. Trust	-4.7
First of Chicago (non $ fixed)	-5.7

3-year returns

	%
IDS Trust, Minn.	22.7
Bankers Trust, N.Y.	20.4
First of Chicago ($ fixed)	19.0
EAFE	18.2
U.S. Trust, N.Y.	17.9
American Security, D.C.	17.6
American Natl., Chicago	16.3
First of Chicago (equity)	16.1
Centerre Trust, Mo.	16.0

5-year returns

	%
First of Chicago ($ fixed)	15.9
U.S. Trust, N.Y.	15.4
Bankers Trust, N.Y.	14.9
EAFE	14.0
American Natl., Chicago	12.8

10-year returns

	%
U.S. Trust, N.Y.	13.8
Morgan Guaranty (equity), N.Y.	12.8
EAFE	12.7

Commingled special equity funds

3-month returns

	%
Citibank (Spec. Sit.), N.Y.	17.7
HT Investors R.I.	17.6
Republic Natl., Dallas	17.4
Security Pacific (Fund G), Calif.	16.8
First Trust, St. Paul	16.2
Connecticut Natl. Bank	15.5
Valencia Bank (Fund A), Calif.	15.1
Northern Central, Pa.	15.0
Lincoln Natl., Pens., Ind.	14.9
First of Boston (Eq. II), Mass.	14.6
First Pennsylvania Bank	14.2
First Wisconsin Trust	13.8
Republic Natl., Dallas	13.7
First of Neenah, Wis.	13.6
Fidelity Mgmt. Trust, Mass.	13.4
American Security, D.C.	13.2
First of Maryland	13.1
Trust Co. of the West	13.0
Manufacturers Hanover, N.Y.	12.9
Continental Illinois	12.9
First of Minneapolis	12.8
Seafirst Bank (N.W. Fund), Wash.	12.7
Natl. Bank of Commerce, Tenn.	12.6
Merchants Natl., Ala.	12.6
First Tennessee, Memphis	12.2
Harris Trust, Ill.	12.0
Equitable Bank, Md.	11.8
First of Neenah, Wis.	11.8
Mellon Bank, Pa.	11.5
Oregon Bank	11.5
California First Bank	11.4
Wachovia Bank, N.C.	11.3
Morgan Guaranty, N.Y.	11.3
Bankers Trust, N.Y.	11.2
Merchants Natl., Pa.	11.2
Old Second Natl. (HR10), Ill.	11.1
Northern Trust, Ill.	11.0
Prudential (Piform), N.J.	11.0
MTrust, Texas	10.9
InterFirst Inv. Mgmt., Texas	10.7
AmeriTrust, Ohio	10.6
Prudential (Midco), N.J.	10.6
Trust Co. of Georgia (B)	10.4
MBank, Austin, Texas	10.3
Central Trust, Ohio	10.3
Citibank (R.E. stock), N.Y.	10.2
Standard & Poor's 500	**9.2**

1-year returns

	%
Citibank (R.E. stock), N.Y.	32.9
First Trust, St. Paul	32.0
First of Minneapolis (No. 20)	30.0
MBank, Austin (Keogh), Texas	28.5
Citibank (Spec. Sit.), N.Y.	27.7
Republic Natl., Dallas	27.6
First of Neenah, Wis.	26.0
National Bank of Detroit	24.4
Fidelity Mgmt. Trust, Mass.	24.4
United Virginia Bank	23.0
Prudential (Priform), N.J.	22.8
First of Maryland	22.3
Mellon Bank, Pa.	21.8
First of Boston (Eq. II), Mass.	20.6
Valencia Bank (A), Calif.	20.5
Connecticut National Bank	19.8
First Pennsylvania Bank	19.8
First of Boston (Eq. II), Mass.	19.7
First Wisconsin Trust	19.7
Old Second Natl. (HR10), Ill.	19.6
Trust Co. of Georgia (B)	19.4
Mutual of New York	19.4
InterFirst Inv. Mgmt , Texas	19.3
Trust Co. of the West	19.0
Standard & Poor's 500	**18.9**
Merchants Natl. (No. 2), Ind.	18.9
Seafirst Bank (N.W. fund), Wash.	18.5
Bank of New York (A)	18.0
Manufacturers Hanover, N.Y.	17.5
Sovran Bank, Va.	17.2
Sentry Life (A), Wis.	16.9
Bankers Trust, N.Y.	16.8
Prudential (Midco), N.J.	16.6
Morgan Guaranty, N.Y.	16.5
Chase Manhattan (Spe. E.), N.Y.	16.3
First of Neenah, Wis.	16.2
Chase Manhattan (Int. cap.), N.Y.	15.7
Trust Co. of Georgia	15.4
First National of Tulsa	15.2
Lincoln Natl. Pens., Ind.	15.1
Merchants National, Ala.	15.0
First of Chicago	15.0
HT Investors, R.I.	14.8
Oregon Bank	14.7
Citibank (Fund F), N.Y.	14.6
Merchants National, Pa.	14.1
MTrust, Texas	13.2

3-year returns

	%
Security Pacific (G), Calif.	40.4
Citibank (R.E. stock), N.Y.	36.8
Provident National, Pa.	31.8
First Trust St. Paul	31.2
Natl. City Cleveland (R.E.)	29.6
Connecticut National Bank	29.3
Citibank (Spec. sit), N.Y.	29.2
Wachovia Bank (Div.), N.C.	28.8
California First Bank	28.7
First of Maryland	27.4
First Pennsylvania Bank	27.3
Prudential (Priform), N.J.	26.0
Prudential (Midco), N.J.	26.0
Chase Manhattan (Value), N.Y.	26.0
National Bank of Detroit	25.8
United Virginia Bank	25.7
First of Boston (Eq. yld.), Mass.	25.2
Connecticut Bank & Trust	24.9
Manufacturers Hanover, N.Y.	24.5
First of Boston (Eq. II), Mass.	24.4
Citibank (F), N.Y.	24.1
Norwest Bank, Minn.	23.8
Chase Manhattan (Spe. Eq.), N.Y.	23.8
Central National Cleveland	23.8
InterFirst Inv. Mgmt., Texas	23.6
First of Chicago	23.5
American Security, D.C.	23.4
Bankers Trust, N.Y.	23.3
MTrust, Texas	23.3
Equitable Life (Spe. Eq.), N.Y.	23.2
First Wisconsin Trust	23.2
Standard & Poor's 500	**23.2**
Merchants Natl. (Spe. Stk.), Ala.	22.7
Chase Manhattan (Int. Cap.), N.Y.	22.1
Mutual of New York	21.8
Morgan Guaranty (Small), N.Y.	21.6
Morgan Guaranty (Suppl.), N.Y.	21.5
Merchants National, Pa.	21.4
MBank, Austin, Texas	21.3
Sovran Bank, Va.	20.9
Northern Trust, Ill.	20.8
First of Minneapolis	20.8

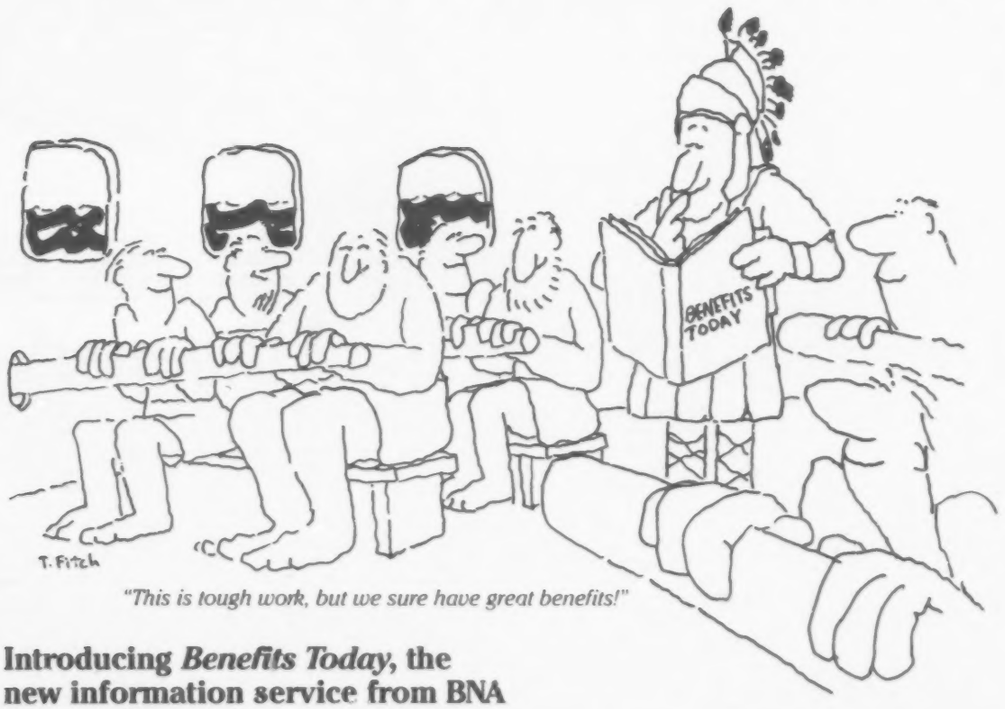
5-year returns

	%
California First Bank	34.1
Provident National, Pa.	30.0
MTrust, Texas	27.5
Merchants Natl. (Spe. stk.), Ala.	27.4
First of Maryland	27.2
Northern Trust, Ill.	26.5
Northern Central, Pa.	25.6
Norwest Bank, Minn.	25.2
First of Chicago	24.9
Citibank (Spe. sit.), N.Y.	24.8
Bankers Trust (Sup. Eq.), N.Y.	24.7
First Trust St. Paul	23.8
Continental Illinois (No. 2)	23.8
First of Boston (Eq. II), Mass	23.6
Chase Manhattan (Spe. Eq.), N.Y.	23.6
Chase Manhattan (Value), N.Y.	23.4
InterFirst Invt. Mgmt., Texas	23.3
Connecticut Bank & Trust	22.5
First Pennsylvania Bank	22.4
Prudential (Priform), N.J.	22.3
Citibank (F), N.Y.	22.2
United Virginia Bank	21.7
Equitable Life (Spe. Grow), N.Y.	21.5
First Interstate of Nevada	21.1
First Wisconsin Trust	20.9
Chase Manhattan (Int. Cap.), N.Y.	20.6
First of Boston (Yield)	20.4
Morgan Guaranty, N.Y.	20.4
Natl. City Cleveland	20.1
Metropolitan Life (No. 5), N.Y.	19.4
Standard & Poor's 500	**17.9**

10-year returns

	%
MTrust, Texas	27.6
Equitable Bank, Md.	24.8
First of Maryland	23.2
California First Bank	23.0
Chase Manhattan (Spe. Eq.), N.Y.	22.5
Northern Central, Pa.	22.3
Bankers Trust (Sup. Eq.), N.Y.	21.1
Connecticut Bank & Trust	20.2
National City Cleveland	19.7
Provident National, Pa.	19.2
Morgan Guaranty, N.Y.	19.2
InterFirst Inv. Mgmt. Texas	19.0
Citibank, N.Y.	18.9
Equitable Life, N.Y.	18.8
Manufacturers Hanover, N.Y.	18.6
Continental Illinois	18.0
Chemical Bank (F), N.Y.	17.9
Metropolitan Life (No. 5), N.Y.	17.8
AmeriTrust, Ohio	17.8
Norwest Bank, Minn.	17.5
Standard & Poor's 500	**13.5**

How to keep the crew happy without sinking the ship



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Real Estate

Bell executives find TREET a little confining

By Mark Westerbeck

CHICAGO — Internal managers of the new Bell holding companies indicate they are chafing under the weight of the Telephone Real Estate Equity Trust, raising the possibility some are encouraging the liquidation of the $4 billion portfolio sooner rather than later for the planned 10-year life of this special closed-end fund.

U S WEST Inc., Denver, already has sold almost half of its share in TREET to other "baby Bells," as provided for in the divestiture decree. James J. Biundo, director of trust investment management, suggested strongly at this month's meeting of the Pension Real Estate Association he wouldn't mind getting out from under the remainder.

Two other executives, Richard E. Holmes of Pacific Telesis Group, San Francisco, and Donald W. Phillips of American Information Technologies Corp., Chicago, also made sounds that they're not fully content with the current setup, and some attending the meeting speculated this will lead the former corporate parent to act on cashing out.

None of the executives expresses dissatisfaction with the portfolio itself, which employs 22 investment advisers and is extremely well-diversified, mostly in direct investments with a mix of commingled fund interests. Nor do they mention the management fee they are said to be paying to American Telephone & Telegraph Co.'s investment staff, outside of the fee TREET has to pay to the advisers.

They can't be blamed for feeling they could add value. TREET is so vast and diverse, it acts like an index fund: It returned 13.1% in 1984, according to Mr. Holmes. For the same period, the only "fund" that's bigger — Prudential Asset Management's PRISA — returned 14.5%, and Equitable Real Estate Investment Management's Separate Account #8 showed 14.1%.

The key issue is that the heads of the newly formed multibillion-dollar funds have trouble coming to grips with having control over all but a 5% to 8% segment of their assets, worth hundreds of millions of dollars.

Mr. Phillips, who as Ameritech's director of investment management oversees one of the bigger shares of TREET ($600 million), acknowledged his staff is slowly addressing the issue of its real estate assets and is spending more time on what to do about TREET.

"It's very unusual to have that much in something and no say or control," Mr. Phillips noted. Ameritech basically likes TREET, but "whether we'll continue to maintain $600 million in TREET is a very serious question."

The problem, as Mr. Holmes pointed out, is the "sons of Bell," as he called them, have just two options: the liquidation of TREET or finding willing buyers within the seven new holding companies and AT&T. U S WEST clearly has ruled itself out as a potential buyer, and the more pressure that fund and others exert to get out has to make the remainder wonder what they're acquiring by taking on more of TREET.

Mr. Biundo referred to U S WEST's reported sale of $200 million of TREET to AT&T, BellSouth Corp. and NYNEX Corp. last year and suggested he would have liked to sell it all.

By the rules, he could only sell half at one time and the rest not for at least 18 months. The aggressive U S WEST thought it was time to act first, but he added, "The rest of them will probably get their act together and get AT&T to accelerate the liquidation of property and make us look pretty dumb."

PacTel is widely expected to be the next one to move.

Mr. Holmes, director of investment management, said the fund will start with two or three advisory firms "and grow with them over time."

Members of the advisory trade have said three firms already have been selected on the staff level and are awaiting approval of PacTel's chief investment officer, a process expected to be completed by the end of May.

Mr. Holmes initially said PacTel would take on no commingled funds, because TREET is 22% in open-end pools and 13% in closed-end (the balance is in separate accounts).

Continued on page 44

Aetna Realty Investors bought an interest in the Boston Ritz-Carlton.

Wrap-up

Ritz interest acquired

BOSTON — Aetna Realty Investors Inc.'s $1.5 billion open-end fund for 236 pension clients has acquired a partnership interest in the the Ritz-Carlton Hotel here.

Aetna's partner is W.B. Johnson Properties Inc., an Atlanta-based development and management company that bought the Ritz-Carlton in 1983 and that is in the process of an extensive rehabilitation.

The value of the equity investment is believed to be in excess of $30 million. It increases Aetna's Real Estate Separate Account's exposure in hotels from less than 5% to about 7% of the portfolio.

The restoration project on the 227-room hotel began in August 1984 and is expected to be done this October. It includes conversion of the heating, ventilating and air-conditioning systems, new carpets in the corridors and lobby and the refurbishment of each guest room and the cafe.

Aetna's RESA had a 2.2% first quarter return in 1985, on 2% cash and 0.9% appreciation. For the 12 months ended March 31, its return was 12% on 9% cash and 3% appreciation.

Since its 1978 start, it has returned 13.3% annually.

Nevada near move?

CARSON CITY, Nev. — The $1.4 billion Nevada Public Employees Retirement System could make its $140 million decision on real estate equity managers at its meeting this week. Four or five commingled funds are expected to be chosen

Continued on page 45

Aldrich sees trouble ahead

By Mark Westerbeck

NEW YORK — With lots of short-term debt again matched to long-term assets, the U.S. real estate market is going through changes that should prove troublesome for investors during the next few years, according to Peter Aldrich, principal of Aldrich, Eastman & Waltch, Boston.

Mr. Aldrich is more outwardly concerned with real estate capital market issues than most of his compatriots, and in discussing the burgeoning growth in formal commercial property mortgage-backed securities, he portrayed a battlefield where great debt and overbuilding will meet.

He made his comments at a seminar on real estate investing conducted last month by the Institute of Chartered Financial Analysts where several pension fund industry leaders examined the issues.

Mr. Aldrich ultimately led to an advertisement for what his real estate money management firm is known: hybrid debt structures, mortgages with equity kickers. But before reaching that point, his remarks were unsettling to anyone buoyed by the current constancy of the real estate market in the post-inflationary cycle.

"I do think the market is embarked on securitization and I think it is troubled," Mr. Aldrich said. "The real estate market is about to embark on trials and tribulations that are very similar to what happened in 1974."

That was when lenders of construction debt, largely savings and loan associations, formed real estate investment trusts to make these short-term loans on assets that inherently have longer-time horizons. When the recession hit, the cost of money became too dear, and the real estate market crashed.

Creating mortgage-backed securities is again an issue, but this time REITs are focused on equity real estate products that are essentially directed at the retail market and a new product generically known as commercial mortgage-backed securities. Wall Street's investment houses are bringing the new product to a market that seems more geared for institutional players.

Mr. Aldrich said the real estate market already holds $7.5 trillion in capitalization and has accumulated $2 trillion in debt — more than what is found in any other American market — and this still tends to be short-term debt sup-

Continued on page 46

There was one omission in the table ranking the largest 25 real estate managers by equity real estate assets on page 88 of the May 6 investment adviser issue.

The revised chart shown now includes The RREEF Funds, and omits several funds that had included foreign accounts in their totals. The ranking was meant to be by assets invested for U.S. pension and other tax-exempt funds.

In the revised chart, it is believed only Heitman Advisory Corp.'s amount still includes an undetermined amount of foreign pension fund money.

Also affecting the rankings was the spinning off of insurance company subsidiaries that did not count general account assets of the parent.

25 largest equity real estate managers of U.S. pension fund assets

Rank	Managers	($ millions)
1.	Prudential Asset Management	$5,873
2.	Equitable Real Estate Investment Mgmt.	3,700
3.	The RREEF Funds	2,721
4.	Corporate Property Investors	2,200
5.	Aetna Life and Casualty Co.	1,710
6.	Heitman Advisory Corp.	1,700
7.	LaSalle Advisors	1,450
8.	Aldrich Eastman & Waltch	1,300
9.	JMB Institutional Realty Corp.	1,300
10.	F.I.A. Associates	1,273
11.	Eastdil Realty	897
12.	The Boston Co.	892
13.	J.P. Morgan Investment Management Inc.	823
14.	CIGNA	801
15.	First Chicago Investment Advisors	731
16.	Coldwell Banker Capital Management	700
17.	John Hancock Companies	694
18.	Wachovia Bank & Trust Co.	570
19.	Metropolitan Life Insurance Co.	563
20.	Security Capital Real Estate Corp.	552
21.	The Travelers Companies	509
22.	Citicorp Investment Management	480
23.	The Karsten Companies	463
24.	TCW Realty Advisors	442
25.	Kennedy Associates Inc.	441
	Total	$32,765

Cash Management

Managers: Hutton case won't stop abuses

Spot judgment aids practice

By Richard J. Gillespie

CHICAGO — Banks still are exposed to fraudulent practices similar to that for which E.F. Hutton, the Wall Street brokerage firm, was fined $2 million earlier this month, a noted cash management consultant warned.

Larry Marks, president of Phoenix-Hecht Inc., a leading cash management consulting firm, said he had warned many banks in the past about the widespread practice of allowing corporations to draw down uncollected funds.

As a result of inefficiencies in the check clearing system, bankers often were, and still are, required to make a spot judgment on whether to allow a corporate client to take what in effect amounts to a free overdraft, said Mr. Marks.

Continued on page 55

By Fred Williams

DALLAS — Bank officers and cash management executives roundly condemned E.F. Hutton & Co. for an elaborate scheme that exploited weaknesses in the nation's banking system to produce millions of dollars in illegal profit.

But many agreed other companies are exploiting the system even today after the revelations about Hutton, and all said there is no way to stop corporations from doing it as long as America uses a paper-based check processing system.

Most of the bank officials who responded to questions seemed bitter about the disclosures, although not all were surprised at the news about the nation's fifth largest brokerage firm.

On May 2, the first day of the trial, E.F. Hutton & Co.'s lawyers pleaded guilty to 2,000 counts of mail and wire fraud, and agreed to pay more than $10 million in fines and restitution.

The firm had been charged by the Justice Department with what was described as a highly organized and complex check kiting scheme in which the firm systematically overdrew literally hundreds of its accounts scattered across the country between July 1, 1980, and Feb. 29, 1982.

Even while acknowledging other corporations even now might be engaging in similar illegal activities, bankers say they will not be able to stop them until float is eliminated, something most believe never will come to pass.

Many blamed Hutton's victimized banks for their laxness in regard to existing controls, although they said many banks clearly were intimidated by E.F. Hutton's name and feared that if they did not play along, they would lose a valued corporate relationship.

Even in the aftermath of the scandal, the E.F. Hutton name continues to intimidate some bankers.

While few would join The New York Times columnist William Safire in openly espousing a jail sentence for those individuals at Hutton responsible for the scheme, privately many believed Hutton got off too lightly with a $2 million fine and promises of restitution.

Most of all, the bank cash management officials interviewed were deeply disappointed in Hutton for its acknowledged manipulation of the banking system.

Most commented privately that E.F. Hutton's management should at least publicly reprimand the individuals directly responsible.

Some others believed the blame lies with the system. "You hear about E.F. Hutton and today you hear about what General Electric is doing (in defense billing practices) and others before that. The philosophy today is to do what you can and if you get caught you pay your fine and go on with your business," said one banker who wished to remain anonymous.

Jerry Boynton, vice president-manager of corporate cash management at Texas Commerce Bank in Houston, was one of those bankers who admitted disappointment at Hutton's behavior.

Explaining the banking system is built on faith and most banks rely on customers to "do the right thing," he said he felt a sense of outrage that senior personnel at Hutton knew what was going on, yet pushed it as far as they could in their zeal to make a buck.

"I certainly think the persons responsible should be publicly reprimanded," said Mr. Boynton.

While Hutton was conducting the practice to enhance its profitability, a troubled com-

Continued on page 54

For 4th straight quarter

Corporate liquidity drops

By Richard J. Gillespie

NEW YORK — Liquid reserves of America's 100 industrial giants dropped for the fourth straight quarter, and finished 1984 at an aggregate level of $63 billion.

Liquidity of the 100 largest corporations is defined as cash and short-term investments, but includes certain other marketable securities listed under long-term assets.

Figures compiled by Wright Investors' Service of Bridgeport, Conn., showed liquid reserves reached a cyclical high of $74 billion at year-end 1983, and have waned since.

Overall, 22 corporations had more than $1 billion in cash and short-term investments at year-end 1984, of which seven had more than $2 billion.

General Motors Corp. had the most cash of all, $8.6 billion, but was down from the $10.2 billion it recorded at midyear. The automaker's absolute level of cash is still large enough to impress potential takeover candidates.

Ford Motor Co., with almost $6 billion, had an 89% gain from its year-end 1983 figure, while International Business Machines Corp., had $4.4 billion and Exxon Corp. followed with $4.1 billion.

Among the largest increases in liquidity, Occidental Petroleum Corp. reported $1.2 billion compared with $291 million at year-end 1983. Standard Oil Co. (Ohio) reported $337 million compared with $91 million the year previous, while R.J. Reynolds Industries Inc. reported $1.3 billion compared with $363 million.

The level of cash reported by individual corporations can fluctuate dramatically during the course of the business cycle.

But in aggregate, the figures documenting the level of corporate cash reserves show companies were liquidating the reserves built up in the early stages of the boom that began in the fall of 1982 and continued throughout 1983 and part of 1984, sources agreed.

The largest declines in corporate cash were registered by McDonnell Douglas Corp. whose reserves shrank to $34 million from $407 million; Consolidated Foods Corp. (now Sara Lee Corp.) down to $56 million from $304 million; and Deere & Co., which reported $40 million Jan. 31, compared with $195 million the previous year.

The latest numbers reveal the largest 10 industrial corporations experienced a 26% drop in cash-type holdings, while the smallest 10 industrials in the group actually show a 10% increase.

While the 50 corporations heading the list showed a 13% drop in

Continued on page 53

Largest changes in cash holdings*

(Quarter ended 12/31/84)

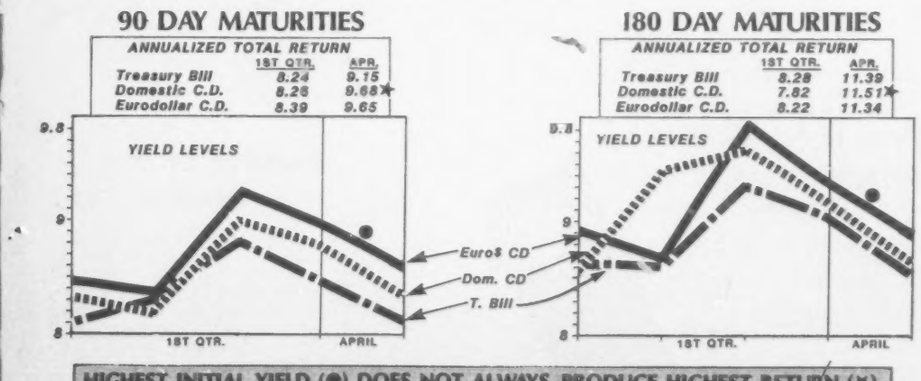
Company	Cash & short-term investments — ($ millions) — 1984	1983	% change '84 vs. '83
10 largest cash positions among the Fortune 100 corporations			
General Motors	$ 8,567	$ 6,217	37.80
Ford Motor	5,943	3,152	88.55
Int'l Business Machines	4,362	5,536	−21.21
Exxon Corp.	4,096	3,290	24.50
General Electric	2,373	2,505	−5.27
AT&T Technologies	2,140	5,312	−59.71
Mobil Corp.	2,035	1,553	31.04
Phillips Petroleum	1,894	906	109.05
Chrysler	1,700	1,069	59.03
Boeing	1,595	1,095	45.66
10 largest increases in cash and short-term investments			
Occidental Petroleum	$ 1,195	$ 291	310.65
Standard Oil (Ohio)	337	91	270.33
R.J. Reynolds Industries	1,323	363	264.46
Philip Morrris	94	30	213.33
Phillips Petroleum	1,894	906	109.05
Ford Motor	5,943	3,152	88.55
Armco	169	91	85.71
Digital Equipment	841	456	84.43
Allied Corp.	145	81	79.01
Procter & Gamble	1,415	800	76.88
10 largest decreases in cash and short-term investments			
McDonnell Douglas	$ 34	$ 407	−91.65
Consolidated Foods	56	304	−81.58
Deere & Co.*	40	195	−79.49
IC Industries	42	180	−76.67
TRW Inc.	81	245	−66.94
Gulf & Western*	61	170	−64.12
Anheuser-Busch	79	218	−63.76
Emerson Electric	102	275	−62.91
AT&T Technologies	2,140	5,312	−59.71
Tenneco	73	167	−56.29

*Top 100 industrial companies

* Quarter ended 1/31/85

Computed by the corporate and investment data bank maintained by Wright Investors' Service, Bridgeport, Conn.

PAYDEN & RYGEL INDEX OF SHORT MATURITY ASSETS



HIGHEST INITIAL YIELD (●) DOES NOT ALWAYS PRODUCE HIGHEST RETURN (★).

The Payden & Rygel index of short-maturity assets appears in every issue of *Pensions & Investment Age*. Intended to be a short-term investment benchmark, it charts total returns on a variety of short-term instruments, and shows the discrepancy between simple yields and total returns. Payden & Rygel, Los Angeles, specializes in short-to-intermediate-term investment management.

Corporate liquidity . . .

Continued from page 51

liquid reserves, the smallest 50 corporations liquid reserves dropped just 2.7%.

It is noteworthy that the aggregate level of liquidity at the largest corporations has been found not to ebb and flow with that at the smallest corporations through the business cycle.

For the 2½-year period in which the liquidity study has been undertaken by Wright Investors' and *Pensions & Investment Age*, the large corporations generally have expanded levels of liquidity earlier in the business cycle. The smallest tend to lag in this respect, generally increasing liquidity some months after the recovery is under way.

For example, figures for the third quarter of 1982, the period in which the past economic recovery began to take hold, showed that while the overall level of liquidity for all 100 corporations was down 0.7% compared with the year before, liquidity at the largest 10 corporations had improved 30%.

At the same time, the liquidity of the bottom 10 corporations listed continued to deteriorate, and fell 11% in the third quarter of 1982 compared with the year previous.

Similar figures taken at the end of 1982 showed liquidity at the top five corporations improved at a 15% rate for the year, but those of the bottom five were down 36%. Liquidity among all 100 corporations had improved by about 2% during the same timespan.

By the end of the first quarter of 1983, the smaller corporations were beginning to show signs of life. For the 12 months ended March 31, 1983, liquidity at the smallest 10 companies improved 18.6%, although their performance was upstaged by that of the big 10, whose liquidity grew 44.5% during the period.

The turnaround was first seen at year-end 1983, when the smallest 10 corporations on the list showed stronger growth in liquidity at 49% compared with 41% for the big 10.

Although there was a surge in the second quarter of 1984 in which both groups made large gains (figures for the first quarter were not made available), the most recent figures show liquidity at the big 10 took a sharp decline, down 26%, while the smallest 10 companies squeezed out a 2.6% increase.

While it was speculated by one cash management analyst that the reason for the disparity was that larger corporations find it easier to get low-cost credit and working capital, another industry commentator thought it more likely the reason had more to do with subcontracting. ■

Corporate cash management survey to be published Aug. 19

Which lockbox bank in Chicago provides the most timely balance reporting? Which disbursement bank in the Southwest lives up to its promises? Which concentration bank has the most courteous personnel?

All these questions and many more will be answered Aug. 19 with the publication of the fourth annual corporate cash management survey, in which corporate cash managers with America's largest corporations get to rate their banks.

This year, through an arrangement with 32 regional cash management associations, *Pensions & Investment Age* will be asking the members to discriminate among the banks that provide their banking services.

Distributing the survey through the regional associations will help the surveyors reach a larger sample of respondents, providing more reliable data.

If you are a member of one of these associations, we urge you to spend a few minutes filling out and returning the questionnaire. By so doing, you will be sending a strong and clear signal to your banks that you like or do not like what they are doing.

If you are not a member of a regional cash management association and would like to join one, contact Richard Gillespie at *P&I Age*'s New York office, who will put you in touch with the group nearest you. Contact Mr. Gillespie at (212) 210-0120.

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Although timberland investments are gaining among pension funds, the area is considered hard to sell.

Timber taking root with pension funds

By Barry B. Burr

Investments in timber have gained more new commitments from pension funds, including American Hoechst Corp., Dayton Hudson Corp., Avon Products Inc., New Hampshire state and Detroit Police and Fire.

But the investment, regarded as an equity real estate option, by and large still is a hard sell, according to seven timber managers marketing to pension funds.

• After nine months of marketing, John Hancock Mutual Life Insurance Co., Boston, closed its closed-end pooled timber fund, ForesTree One, attracting $16 million and falling short of its $20 million to $50 million goal.

The money came from five clients, including its own pension fund, said John Lord, senior agricultural investment officer.

One pension client, R.R. Donnelley & Sons Co., Chicago, chose timber as a way to get out of a group annuity contract with Hancock, said a Donnelley official.

• After 10 months of marketing, Equitable Life Assurance Society of the United States, New York, has commitments totaling $32.5 million from four clients, including $10 million from Equitable. (The insurer wouldn't say whether its commitment came from its general account or its own pension fund.)

The total so far also is short of the $50 million the pool wants before starting to buy timberland and of its $100 million final goal, according to Eric Oddleifson, president, EAI Resource Investments Inc., Boston. EAI, a unit of Evaluation Associates Inc., Westport, Conn., manages Equitable's closed-end timber fund.

• TimberBank Management Corp., a limited partnership set up last year by Simms Capital Partners, New York, so far has one commitment to its envisioned $150 million fund, said Robert A. Simms, SCP chairman.

The New Hampshire State Retirement System committed $5

Continued on page 66

Late news

Texas cuts funding

AUSTIN, Texas — Gov. Mark White signed a bill to cut the funding rate for the state's two largest public pension plans during the next two years in an effort to save the state millions of dollars while leaving the funds actuarially sound.

One state official said funding cuts in the $10 billion Teacher Retirement System of Texas and the $2.5 billion Employees Retirement System of Texas will save the state more than $110 million in 1986 and 1987.

Under the law, part of an overall effort to tighten state spending, funding for the teachers is cut to 8% of payroll from the 8.5% that would

Continued on page 2

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Walton decision detailed

Door ajar for union job tie

By Joel Chernoff

FORT LAUDERDALE, Fla. — A federal court judge has given a powerful boost to Taft-Hartley pension fund trustees seeking to create union jobs through real estate investments.

The long-awaited decision in Donovan vs. Walton found the trustees of the Operating Engineers Local 675 pension fund did not violate the prudence and prohibited transaction provisions of the Employee Retirement Income Security Act in financing, building and then leasing a new headquarters for the fund and the union.

In his 52-page decision, Judge Jose A. Gonzalez Jr. of the U.S. District Court for Southern Florida found the Department of Labor had not met the burdens of proof in its 1981 lawsuit against the fund trustees.

"The Department's charges are indeed serious, but its bark is worse than its bite," the judge wrote.

Not only did the decision hold that such investments are legal if done prudently, but the judge implied it is acceptable to pay higher wages for union labor, even if it boosts the pension fund's overall costs.

However, the opinion barely touched on the fund's $2 million residential mortgage program, which provided 11% home loans to plan participants when interest rates were at record levels.

Judge Gonzalez previously had dismissed Labor Department charges that the mortgage program and the construction of the office building violated ERISA, but without providing a rationale (*Pensions & Investment Age*, March 18).

In addition, the judge had refused to consider charges that the fund improperly reimbursed the union for services provided by Dennis Walton, the union's business manager and a fund trustee.

Prior to the decision's unveiling, Mr. Walton had said that if the Labor Department challenges the fund's real estate diversification, the trustees might seek a judicial interpretation on how much pension funds legally can invest in real estate.

While the $40 million fund now has about 10% of its assets in real estate, it has had as much as 65% invested in that category.

The decision is expected to send a strong signal to trustees of jointly managed pension funds across the country.

Those funds, known also as Taft-Hartley funds, have an estimated $80 billion to $100 billion in assets but only 4% to 5% of their

Continued on page 61

Continental shift spurs departures

By Rose Darby

STAMFORD, Conn. — The Continental Group's roughly $1.1 billion pension fund is being restructured, and as a result of the selection of a fixed-income approach matching liabilities, three of the fund's four pension administrators and two support staff employees are leaving.

Those leaving include William R. Good, vice president-pension asset management; Roy Hermansen, director; and T. Kirkham Barneby, director.

Christine Williams, manager-pension investment administration, will stay on at Continental to head up administration of the fund.

She had been monitoring the fund's estimated 15 external managers prior to the restructuring, in which at least five of the advisers have been terminated.

"We have moved from a diversified portfolio, to a fixed-income one," according to Mr. Good.

"We want to use a low-risk approach so that, in general, liabilities are being matched with income."

Roughly $750 million of Continental's pension fund assets will be affected by the changes, said one fund official.

Thus far, Bankers Trust Co. and Trust Co. of the West will continue to manage fixed-income portfolios for Continental, he said.

Mr. Good would not comment on whether either of those managers would take on the added duties of administering an immunized or dedicated portfolio

Continued on page 65

Options smooth way for Gates dedication

By Barry B. Burr

DENVER — Gates Corp. is using options on financial futures to lock up a floor return for a $110 million dedicated bond portfolio, while it gets together all the cash to buy the bonds.

Gates won't have the cash to complete the dedication until 1986.

Meantime, Ward & Wissner Capital Management Inc., New York, has been buying call options on Treasury bond futures, locking up a higher interest rate to hedge against falling bond yields and rising bond prices.

Gates holds about $115 million worth of options on T-bond futures, enabling it to lock in a yield for the dedication in excess of 12¼% to 12½%, said Clayton M. Hill, director-corporate insurance and employee benefits.

The $200 million pension fund's use of options on futures isn't its only use of financial futures.

In equities, unrelated to the fixed-income strategy, another manager, Leland O'Brien Rubinstein Associates Inc., Los Angeles, is using stock-index futures to hedge against losses in Gates' entire $100 million equity portfolio.

The strategy skews Gates' position into and out of the stock market by using stock-index futures without interfering with the individual decisions of Gates' four outside equity managers.

The dedication, the first for Gates, will change its asset allocation slightly. It won't result in any firings or hirings of its equity or fixed-income managers, although money to finance the bond purchases will come from some of their accounts, Mr. Hill said.

Gates' traditional target allocation of 70% equities and 30% fixed-income, including real estate, will change to roughly 50% equities, 50% fixed income.

The dedication is being set up as part of the company's plan to switch eventually to a defined contribution plan for Gates' 6,500 non-bargaining employees, the bulk of its work force. Its 2,500 collective bargaining employees will remain in the defined benefit plan.

"We as a company became convinced quite some time ago that a defined benefit plan wasn't in the best interest of the company and the employees," Mr. Hill said.

He said Gates hasn't unbundled the pension fund to look at how much in assets would be left in the plan for bargaining employees. Those employees also might someday prefer to switch to the defined contribution plan, he said, although there are no plans for that now.

After engaging Johnson & Higgins, New York, for a pension costs study, Mr. Hill said Gates decided to set up a 401(k) tax-sheltered savings plan as the vehicle to ultimately replace the defined benefit plan.

Continued on page 65